Joint Stock Company
Territorial Generating Company №1
and its subsidiary

Consolidated Financial Statements
prepared in accordance with
International Financial Reporting Standards
and Independent Auditor's Report
31 December 2009

BDO

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Independent Auditor's Report

To the Shareholders and the Board of Directors of Joint Stock Company "Territorial Generating Company № 1" (JSC "TGC-1")

We have audited the accompanying consolidated financial statements of JSC "TGC-1" and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2009, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as at 31 December 2009, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter

Without qualifying our opinion we draw attention to Notes 1, 6, 25 and 26 to the accompanying consolidated financial statements of the Group. The Government of the Russian Federation has an ultimate controlling interest in the Group and Governmental economic and social policies affect the Group's financial position, results of operations and cash flows.

ZAO BDO, company registered under Russian Federation legislation, is a member of BDO International Limited, a UK company limited by guarantee, and forms part of the international BDO network of independent member firms.

Other Matter

The consolidated financial statements of the Group for the year ended 31 December 2008 were audited by another auditor, ZAO PricewaterhouseCoopers, who expressed unqualified opinion on those statements on 1 June 2009.

ZAO BDO

28 May 2010

BDO

JSC TERRITORIAL GENERATING COMPANY №1 AND ITS SUBSIDIARY
CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2009
(in thousands of Russian Roubles)

	Notes	31 December 2009	31 December 2008
ASSETS			
Non-current assets			
Property, plant and equipment	7	84 962 638	64 090 439
Long-term investments	8	20 010	111 849
Deferred tax assets	9	523 018	352 847
Other non-current assets	10	637 841	1 341 598
Total non-current assets		**86 143 507**	**65 896 733**
Current assets			
Cash and cash equivalents	11	579 574	2 058 618
Short -term investments	12	595 695	315 410
Accounts receivable and prepayments	13	10 023 839	8 250 770
Inventories	14	2 143 210	2 586 453
Total current assets		**13 342 318**	**13 211 251**
TOTAL ASSETS		**99 485 825**	**79 107 984**
EQUITY AND LIABILITIES			
Equity			
Share capital	15	38 543 414	38 543 414
Treasury shares	15	-	(2)
Share premium	15	22 913 678	22 913 678
Merger reserve	15	(6 086 949)	(6 086 949)
Fair value reserve		161 452	-
Retained earnings		12 929 217	4 581 594
Equity attributable to the shareholders of TGC-1		**68 460 812**	**59 951 735**
Non-controlling interest		-	-
TOTAL EQUITY		**68 460 812**	**59 951 735**
LIABILITIES			
Non-current liabilities			
Deferred tax liabilities	9	4 661 287	2 748 940
Long-term borrowings	16	9 420 451	2 283 930
Post-employment benefits obligations	17	772 794	686 266
Total non-current liabilities		**14 854 532**	**5 719 136**
Current liabilities			
Short-term borrowings and current portion of long-term borrowings	18	5 617 750	2 433 156
Accounts payable and accrued liabilities	19	9 755 467	10 382 213
Current income tax payable		144 905	151 746
Other taxes payable	20	652 359	469 998
Total current liabilities		**16 170 481**	**13 437 113**
TOTAL LIABILITIES		**31 025 013**	**19 156 249**
TOTAL EQUITY AND LIABILITIES		**99 485 825**	**79 107 984**

Approved for issue and signed on behalf of the Board of Directors on 28 May 2010.

General Director — Vaynzikher B.F.

Chief Accountant — Stanishevskaya R.V.

The accompanying notes are an integral part of these consolidated financial statements.

(in thousands of Russian Roubles)

	Notes	Year ended 31 December 2009	Year ended 31 December 2008
Revenue			
Sales of electricity		22 319 785	17 745 494
Sales of heat		18 022 922	14 778 393
Other sales		1 007 289	1 065 665
Total revenue		**41 349 996**	**33 589 552**
Operating expenses, net	22	(36 382 417)	(33 736 902)
Impairment loss reversed during the year	7	6 154 980	1 456 683
Impairment loss recognised during the year	7	(722 067)	(277 234)
Total operating expenses		**(30 949 504)**	**(32 557 453)**
Operating profit		**10 400 492**	**1 032 099**
Finance income	23	518 921	550 166
Finance cost	23	(223 455)	(280 194)
Finance income, net	23	**295 466**	**269 972**
Profit before income tax		**10 695 958**	**1 302 071**
Income tax charge	9	(2 281 401)	(121 606)
Profit for the year		**8 414 557**	**1 180 465**
Other comprehensive income			
Foreign currency translation differences, net		(64 281)	(164 373)
Net change in fair value of available-for-sale investments		201 815	123 105
Income tax on other comprehensive income	9	(40 363)	(29 545)
Other comprehensive income for the year, net of tax		**97 171**	**(70 813)**
Total comprehensive income fore the year		**8 511 728**	**1 109 652**
Profit for the year attributable to:			
Shareholders of TGC-1	24	8 414 557	1 215 783
Non-controlling interests		-	(35 318)
Profit for the year		**8 414 557**	**1 180 465**
			-
Total comprehensive income attributable to:			-
Shareholders of TGC-1	24	8 511 728	1 144 970
Non-controlling interests		-	(35 318)
Total comprehensive income		**8 511 728**	**1 109 652**
Earnings per share for profit attributable to the shareholders of TGC-1, basic and diluted (in Russian Roubles)	24	0.0022	0.0003

	Notes	Year ended 31 December 2009	Year ended 31 December 2008
Cash flows from operating activities			
Profit before income tax		10 695 958	1 302 071
Adjustments to reconcile profit before tax and net cash from operating activities:			
Depreciation of property, plant and equipment	7,22	2 790 690	2 750 427
Impairment loss recognised during the year	7	722 067	277 234
Impairment loss reversed during the year	7	(6 154 980)	(1 456 683)
Gain from property plant and equipment received as compensation	22	(1 376 517)	-
Finance income, net	23	(295 466)	(269 972)
Impairment of available-for-sale investments	22	(266 501)	341 133
Change in provision for impairment of accounts receivable	22	205 262	203 880
Loss on disposal of property, plant end equipment	22	129 729	56 800
Loss on disposal of non-core assets	22	91 457	10 418
Profit from sale of investments	22,8	18 128	-
Change in provision for impairment of inventories	14,22	(10 952)	(23 027)
Other non-cash items		12 243	13 312
Operating cash flows before working capital changes		**6 561 118**	**3 205 593**
Increase in accounts receivable and prepayments		(2 343 889)	(2 617 280)
Decrease/(increase)in inventories		461 553	(188 180)
Increase in other non-current assets		(179 525)	(449 443)
(Increase)/decrease in accounts payable and accruals		(861 020)	227 839
Increase in taxes payable other than income tax		182 361	213 965
Cash generated from operations		**3 820 598**	**392 494**
Income tax paid		(586 428)	-
Interest paid		(1 297 358)	(335 665)
Net cash from operating activities		**1 936 812**	**56 829**
Cash flows from investing activities			
Purchase of property, plant and equipment		(14 532 041)	(16 681 506)
Proceeds from sale of property, plant and equipment		4 124	58 923
Proceeds from sale of investments	8	95 996	-
Purchasers of promissory notes		(5 966 046)	-
Proceeds from repayments of promissory notes		6 081 175	-
Net investments in bank deposits		260 828	3 829 831
Interest received		122 377	616 334
Net cash used in investing activities		**(13 933 587)**	**(12 176 418)**
Cash flows from financing activities			
Proceeds from borrowings		10 922 250	2 503 087
Repayments of borrowings		(5 458 727)	(4 300 526)
Proceeds from issuance of bonds	16	5 000 000	-
Dividends paid		-	(903)
Net cash (used in)/from financing activities		**10 463 523**	**(1 798 342)**
Effect of exchange rate fluctuations on cash and cash equivalents		54 208	-
Net decrease in cash and cash equivalents		(1 533 252)	(13 917 931)
Cash and cash equivalents at the beginning of the year	**11**	**2 058 618**	**15 976 549**
Cash and cash equivalents at the end of the year	**11**	**579 574**	**2 058 618**
Non-cash transaction from investing: purchase of PPE		**2 700 625**	**4 942 229**

(in thousands of Russian Roubles)

	Equity attributable to the shareholders of TGC-1								
	Share capital	Treasury shares	Share premium	Merger reserve	Fair value reserve	Retained earnings	Total	Non - controlling interest	Total equity
Balance at 31 December 2007	**38 509 598**	**(6 740)**	**23 271 781**	**(6 086 949)**	**(93 560)**	**3 530 184**	**59 124 314**	**35 318**	**59 159 632**
Comprehensive income for the year									
Profit for the year	-	-	-	-	-	1 215 783	**1 215 783**	(35 318)	**1 180 465**
Other comprehensive income									
Foreign currency translation differences, net	-	-	-	-	-	(164 373)	**(164 373)**	-	**(164 373)**
Net change in fair value of available-for-sale investments	-	-	-	-	123 105	-	**123 105**	-	**123 105**
Income tax on other comprehensive income	-	-	-	-	(29 545)	-	**(29 545)**	-	**(29 545)**
Total other comprehensive income	-	-	-	-	*93 560*	*(164 373)*	*(70 813)*	-	*(70 813)*
Total comprehensive income for the year	**-**	**-**	**-**	**-**	**93 560**	**1 051 410**	**1 144 970**	**(35 318)**	**1 109 652**
Transactions with owners									
Transaction cost for issuance of shares in 2007	-	-	(422 308)	-	-	-	**(422 308)**	-	**(422 308)**
Issuance of shares for the purpose of merger with "TGC-1 Holding" (Note 15)	33 816	6 738	64 205	-	-	-	**104 759**	-	**104 759**
Total transactions with owners	**33 816**	**6 738**	**(358 103)**	**-**	**-**	**-**	**(317 549)**	**-**	**(317 549)**
Balance at 31 December 2008	**38 543 414**	**(2)**	**22 913 678**	**(6 086 949)**	**-**	**4 581 594**	**59 951 735**	**-**	**59 951 735**
Comprehensive income for the year									
Profit for the year	-	-	-	-	-	8 414 557	**8 414 557**	**-**	**8 414 557**
Other comprehensive income									
Foreign currency translation differences, net	-	-	-	-	-	(64 281)	**(64 281)**	**-**	**(64 281)**
Net change in fair value of available-for-sale investments	-	-	-	-	201 815	-	**201 815**	**-**	**201 815**
Income tax on other comprehensive income	-	-	-	-	(40 363)	-	**(40 363)**	**-**	**(40 363)**
Total other comprehensive income	-	-	-	-	*161 452*	*(64 281)*	*97 171*	-	*97 171*
Total comprehensive income for the year	**-**	**-**	**-**	**-**	**161 452**	**8 350 276**	**8 511 728**	**-**	**8 511 728**
Transactions with owners									
Sale of treasury shares	-	2	-	-	-	-	**2**	**-**	**2**
Change in non – controlling interest of Murmanskaya TPP (Note 1)	-	-	-	-	-	(2 653)	**(2 653)**	**-**	**(2 653)**
Total transactions with owners	**-**	**2**	**-**	**-**	**-**	**(2 653)**	**(2 651)**	**-**	**(2 651)**
Balance at 31 December 2009	**38 543 414**	**-**	**22 913 678**	**(6 086 949)**	**161 452**	**12 929 217**	**68 460 812**	**-**	**68 460 812**

Note 1. The Group and its operations

Joint-Stock Company (JSC) Territorial Generating Company № 1 (hereinafter "TGC-1", or the "Company") was established on 25 March 2005 within the framework of the Russian electricity sector restructuring in accordance with Resolution No. 181 adopted by the Board of directors of RAO UES of Russia (hereinafter "RAO UES") on 26 November 2004. The structure and principles of foundation of TGC-1 were adopted by the Board of Directors of RAO UES on 23 April 2004 (Resolution No. 168).

The Company was founded by three regional energy companies, all controlled by RAO UES: OJSC Lenenergo, OJSC Kolenergo and OJSC Karelenergogeneratsya.

On 1 November 2006, OJSC Petersburg Generating Company, OJSC Kolskaya Generating Company, OJSC Apatitskaya Thermal Power Plant and OJSC Karelenergogeneratsya, all controlled by RAO UES, were merged into TGC-1 and ceased to exist as separate legal entities. Since that time TGC-1 has been the owner of their generating assets.

In May 2007, the Company issued additional ordinary shares in order to exchange them for the shares of OJSC Murmanskaya Thermal Power Plant (hereinafter "Murmanskaya TPP") held by RAO UES and certain non - controlling shareholders. After completion of the share exchange, the Company owns 84.06% of Murmanskaya TPP. The Company together with Murmanskaya TPP hereinafter is referred to as the Group.

As described in Note 15, in October 2007 the Company further increased its equity via additional issue of ordinary shares by open subscription. The major part of the shares issued was bought by LLC Russian Energy Projects and Fortum Power and Heat Oy (Finland).

Following the reorganization process, an extraordinary general shareholder's meeting of RAO UES of Russia on 26 October 2007 decided to spin-off several holding companies to which shares in electricity generation companies, including OJSC TGC-1, held by RAO UES of Russia, were transferred. Holdings separated from RAO UES of Russia were merged with generation companies by means of shares conversion, which enabled the shareholders of RAO UES of Russia to receive direct shares in the generation companies after reorganization. Accordingly upon spin-off from RAO UES of Russia OJSC TGC-1 Holding (the "TGC-1 Holding") received the stake in OJSC TGC-1 held by RAO UES of Russia. Simultaneously with the spin-off, on 1 July 2008 TGC-1 Holding was merged with the Company and its shares were converted into the Company's shares.

On 29 October 2007 the Extraordinary General Meeting of Shareholders of TGC-1 approved an additional issue of shares for the purpose of the merger with OJSC "TGC-1 Holding".

Shares representing an interest of 28,69% in the group owned by RAO UES of Russia were acquired by the Gazprom Group on 23 June 2008.

In April 2009 the Group increased its share in Murmanskaya TPP from 84,06% to 90,34% in accordance with the resolution of Board of Directors (minute № 6 from 15 September 2009 and № 15 from 26 February 2009).

Currently, the Group operates 55 power plants and its principal activity is electricity and heat generation.

The Group's generating assets are located in the North-West of Russia, in particular, St. Petersburg, Leningrad region, Murmansk region and Karelia. The Company's registered office is located at 1, Marsovo pole, 191186, Saint-Petersburg, Russia.

Operating environment

Russia continues economic reforms and development of its legal, tax and regulatory frameworks as required by a market economy. The future stability of the Russian economy is largely dependent upon these reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by the government.

The Russian economy is vulnerable to market downturns and economic slowdowns elsewhere in the world. The ongoing global financial crisis has resulted in capital markets instability, significant deterioration of liquidity in the banking sector, and tighter credit conditions within Russia. While the Russian Government has introduced a range of stabilization measures aimed at providing liquidity and supporting debt refinancing for Russian banks and companies, there continues to be uncertainty regarding the access to capital and cost of capital for the Group and its counterparties, which could affect the Group's financial position, results of operations and business prospects. Also, the borrowers

of the Group may have been affected by the deterioration in liquidity, which could in turn impact their ability to repay the amounts due to the Group.

Impact of the ongoing global financial and economic crisis

The ongoing global financial and economic crisis that emerged out of the severe reduction in global liquidity which commenced in the middle of 2008 (often referred to as the “Credit Crunch”) has resulted in, among other things, a lower level of capital market funding, lower liquidity levels across the banking sector and wider economy, and, at times, higher interbank lending rates and very high volatility in stock and currency markets. The uncertainties in the global financial markets have also led to failures of banks and other corporates, and to bank rescues in the United States of America, Western Europe, Russia and elsewhere. The full extent of the impact of the ongoing financial crisis is proving to be difficult to anticipate or completely guard against.

The uncertainty in the global markets combined with other local factors has led over the recent period to very high volatility in the Russian Stock Markets and at times much higher than normal interbank lending rates. Management is unable to estimate reliably the effects on the Group's financial position of any further deterioration in the liquidity of the financial markets and the increased volatility in the currency and equity markets. Management believes it takes all the necessary measures to support the sustainability and growth of the Group's business in the current circumstances.

Relations with the State and current regulation

As at 31 December 2009 TGC-1 is controlled by Gazprom Group (51.79%) via its subsidiary LLC “Gazprom energoholding”. Other significant shareholders as at 31 December 2009 is Fortum Power and Heat Oy (25.7%)

As at 31 December 2008 Gazprom Group owned 28.66% of the voting shares of the Company. Other significant shareholders as at 31 December 2008 were Fortum Power and Heat Oy (25.7%), LLC Russian Energy Projects (17.67%) and HC Interros (5.6%).

Gazprom Group, in its turn, is controlled by the Russian Federation; therefore, the Russian Government is the ultimate controlling party of the Group as at 31 December 2009.

The Group’s customer base also includes a large number of entities controlled by, or related to the State. Furthermore, the State controls a number of the Group’s fuel and other suppliers.

The government of the Russian Federation directly affects the Group’s operations through regulation by the Federal Service on Tariffs (“FST”), with respect to its wholesale energy purchases, and by the St. Petersburg and Leningrad Oblast Regional Services on Tariffs (“RSTs”), with respect to its retail electricity and heat sales. The operations of all generating facilities are coordinated by OAO System Operator of Unified Energy System. System Operator is controlled by Russian Federation.

Tariffs which the Group may charge for sales of electricity and heat are governed by regulations specific to the electricity and heat industry and by regulations applicable to natural monopolies. Historically, such tariffs have been based on a “cost-plus” system, meaning cost of service plus a margin, where costs are determined based on the information taken from the Regulations on Accounting and Reporting of the Russian Federation, a basis of accounting which significantly differs from International Financial Reporting Standards.

As described in Note 26, the government’s economic, social and other policies could have material effects on the operations of the Group.

Regulatory issues and sector restructuring

Following Russian electric utility sector restructuring aimed to introduce competition to electricity (capacity) market, the New Wholesale Electric Power (capacity) Market Rules of the Transitional period (the “NOREM”) approved by Resolution of the Government of the Russian Federation No. 529 dated 31 August 2006 were adopted. Under the new wholesale market framework, electricity and power purchase-sales transactions in the regulated market sector are to be governed by a regulated bilateral contract system. Starting from 1 September 2006 regulated contracts covered all volumes of electricity and power produced and consumed.

Starting 2007 the volumes of electricity and power traded in the wholesale market applying regulated prices are substantially reducing, pursuant to Russian Federation Government Resolution No. 205 dated 7 April 2007 “On amending certain resolutions of the Russian Federation Government related to

the calculation of electricity volumes sold at free (competitive) prices". The Resolution states that electricity and power supplied at regulated prices will gradually decrease.

The period from 2006 to 2011 is considered as a transitional period. Upon the termination of the transitional period the organization of a competitive electricity wholesale competitive market will be completed.

Electricity volumes produced, not covered by the regulated contracts, are traded at unregulated prices on the basis of free bilateral contracts or on a day-ahead market. Under free bilateral contracts market participants have the right to choose contracting parties, prices and volumes. The day-ahead market is based on the competitive selection of bids submitted by suppliers and buyers the day before the electricity is supplied.

On 30 June 2008 a Resolution of the Russian Government was issued on the launch of the capacity market where available capacity volumes will be allowed to be traded at transition auctions providing for supplies during 2009-2011 and long-term auctions for 10 years supplies, provided they pass through the competitive selection procedure in their respective free power flow zone. For the first time, the wholesale market agents will have the possibility to conclude non-regulated contracts for capacity supply.

On 13 April 2010 Russian Federation Government adopted Resolution №238 "Pricing strategy of capacity trading on the wholesale electricity (capacity) market during the transition period" effective from 26 April 2010. This Resolution determines the pricing parameters of capacity trading on the wholesale capacity market during the transition period and together with Russian Federation Government Resolution № 89 "Certain organizational aspects of long-term capacity take-off on a competitive basis on the wholesale electricity (capacity) market", fully determine the principles of wholesale capacity market functioning.

In accordance with above resolution in case of discover by the Federal Antimonopoly Service (FAS) the reason for settle and applying the maximum level of capacity price, based on competitive capacity take-off in the zone of free capacity exchange, the maximum level of capacity price will be settled. This level will be defined for 2011 as a maximum monthly price on the level of RUB 112.5 thousand per MW for the first price zone and RUB 120.35 thousand for the second price zone adjust on coefficient of utilizing power for auxiliaries (1.05).

Management believes that ultimately a stable regulatory regime and a competitive power market will be put in place such that the Group will be able to raise required financing to sustain the business. However, there can be no assurance in this regard.

Financial condition

As at 31 December 2009, the Group's current liabilities exceeded its current assets by RUB 2 828 163 thousand (as at 31 December 2008 the Group's current assets exceeded its current liabilities by RUB 225 862 thousand). Management plans to find the necessary financials to increase its current assets. Also Company has already repaid their current loans in the first quarter of 2010 (see Note 29).

Note 2. Basis of preparation

Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) under the historical cost convention except as described below. The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

The Group maintains its own books of accounts and prepares its statutory financial statements in accordance with the Regulations on Accounting and Reporting of the Russian Federation (RAR). These consolidated financial statements are based on the statutory records and adjusted and reclassified for the purpose of fair presentation in accordance with IFRS.

Functional and presentation currency

The national currency of the Russian Federation is the Russian Rouble ("RUB"), which is the functional currency of each of the entity of the Group and the currency in which these consolidated financial statements are presented.

Accounting for the effects of hyperinflation

The Russian Federation has previously experienced relatively high levels of inflation and was considered to be hyperinflationary as defined by IAS 29 "Financial Reporting in Hyperinflationary Economies". IAS 29 requires that financial statements prepared in the currency of a hyperinflationary economy be stated in terms of the measuring unit current at the balance sheet date. Hyperinflation in the Russian Federation ceased effective from 1 January 2003. Restatement procedures of IAS 29 are therefore only applied to non-monetary assets acquired or revalued and liabilities incurred or assumed prior to that date. For these balances, the amounts expressed in the measuring unit current at 31 December 2002 are treated as the basis for the carrying amounts in these consolidated financial statements.

Going concern

The accompanying consolidated financial statements have been prepared on a going concern basis, which contemplates the realisation of assets and the satisfaction of liabilities in the normal course of business. The recoverability of the Group's assets, as well as the future operations of the Group, may be significantly affected by the current and future economic environment. The accompanying financial statements do not include any adjustments should the Group be unable to continue as a going concern.

Reclassification

Certain reclassifications have been made to prior year data to conform to the current year presentation:

- Balance of Other property plant and equipment have been increased by RUB 1 748 thousand as a result of the reclassification of generation equipment's balance;
- Accumulated depreciation of production buildings have been decreased by RUB 306 985 thousand as result of the reclassification of accumulated depreciation of hydrotechnical buildings by RUB 8 295 thousand, generating equipment by RUB 259 566 thousand, heating networks by RUB 34 845 thousand, other property plant and equipment by RUB 4 279 thousand.
- Other expenses have been decreased by RUB 9 800 thousand as a result of the reclassification of expenses for impairment of accounts receivable.

Note 3. Critical Accounting Estimates and assumption

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities and carrying amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management also makes certain judgements, apart from those involving estimations, in the process of applying the accounting policies. Judgements that have the most significant effect on the amounts recognised in the consolidated financial statements, and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

Provision for impairment of property, plant and equipment

At each reporting date the Group assesses whether there is any indication that the recoverable amount of the Group's property, plant and equipment and assets under construction has declined below the carrying value. The recoverable amount of property, plant and equipment and assets under construction is the higher of an asset's fair value less costs to sell and its value in use. When such a decline is identified, the carrying amount is reduced to the recoverable amount. The amount of the reduction is recorded in the consolidated statement of comprehensive income in the period in which the reduction is identified. If conditions change and management determines that the value of property, plant and equipment and assets under construction has increased, the impairment provision will be fully or partially reversed. See effect of these critical accounting estimates and assumptions in Note 7. As described in Notes 1, 26 the government's economic, social and other policies could have material effects on the operations of the Group.

Useful lives of property, plant and equipment

The estimation of the useful life of an item of property, plant and equipment is a matter of management's judgement based upon experience with similar assets. In determining the useful life of an asset, management considers the expected usage, estimated technical obsolescence, physical wear

and tear and the physical environment in which the asset is operated. Changes in any of these conditions or estimates may result in adjustments for future depreciation rates.

Recoverability of accounts receivable

Provision for impairment of accounts receivable is based on the Group's assessment of whether the collectibles of specific customer accounts worsened compared to previous period estimates. If there is a deterioration in a major customer's creditworthiness or actual defaults are higher than the estimates, the actual results could differ from these estimates (see also Note 27).

Tax legislation

Russian tax, currency and customs legislation is subject to varying interpretations (Note 26).

Pension obligation

The principal actuarial assumptions used to calculate the defined benefit obligation as at 31 December 2009 are listed in Note 17.

Note 4. Summary of significant accounting polices

Principles of consolidation

The consolidated financial statements comprise the financial statements of the Company and the financial statements of those entities, in which the Company has control. Control is presumed to exist when the Company has the right to control entities directly or indirectly through subsidiaries.

Subsidiaries are those companies and other entities (including special purpose entities) in which the Company, directly or indirectly, has an interest of more than one half of the voting rights or otherwise has power to govern the financial and operating policies so as to obtain economic benefits. The existence and effect of potential voting rights that are presently exercisable or presently convertible are considered when assessing whether the Company controls another entity. Subsidiaries are consolidated from the date on which control is transferred to the Group (acquisition date) and are deconsolidated from the date that control ceases.

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated; unrealised losses are also eliminated unless the cost cannot be recovered. The Company and its subsidiary use uniform accounting policies consistent with the Group's policies.

Non - controlling interest is that part of the net results and of the net assets of a subsidiary attributable to interests which are not owned, directly or indirectly, by the Company. The non-controlling interest forms a separate component of the Group's equity.

Transfers of subsidiaries from parties under common control

Contributions to share capital of shares in subsidiaries from parties under common control are accounted for using the pooling of interest method. Under this method the financial statements of the combined entity are presented as if the businesses had been combined from the beginning of the earliest period presented. The assets and liabilities of the subsidiary transferred under common control are recognised at the predecessor entity's carrying amounts. Any difference between the carrying amount of net assets and the nominal value of share capital and other considerations contributed is accounted for in the consolidated financial statements as an adjustment to equity.

Foreign currency

Monetary assets and liabilities, which are held by the Group entities and denominated in foreign currencies at the balance sheet date, are translated into Russian Roubles at the official exchange rates of the Central Bank of the Russian Federation prevailing at the respective balance sheet date. Foreign currency transactions are accounted for at the exchange rates prevailing at the date of the transaction. Gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies are recognised in the other comprehensive income or losses. Translation at year-end rates does not apply to non-monetary items that are measured at historical costs.

As at 31 December 2009, the official rate of exchange, as determined by the Central Bank of the Russian Federation, between the Russian Rouble and the US Dollar ("USD") was RUB 30.2442(31 December 2008-RUB 29.3804: USD 1), between the Russian Rouble and Euro: RUB 43.3883 (31 December 2008-RUB 41.4411: EUR 1).

As at the balance sheet date, exchange restrictions and currency controls existed relating to converting the Russian Rouble into other currencies. The Russian Rouble is not freely convertible in most countries outside of the Russian Federation.

Property, plant and equipment

Property, plant and equipment are stated at cost, restated to the equivalent purchasing power of the Russian Rouble at 31 December 2002 for assets acquired prior to 1 January 2003, less accumulated depreciation and provision for impairment, where required. Cost includes borrowing costs incurred on specific or general funds borrowed to finance construction of qualifying assets.

At the time of the Group's foundation in 2005 property, plant and equipment were recorded at the carrying values determined in accordance with the IFRS at the date of their transfer to the Group by the Predecessor (RAO UES).

At each reporting date management assesses whether there is any indication of impairment of property, plant and equipment. If any such indication exists, management estimates the recoverable amount which is determined as the higher of an asset's fair value less costs to sell and its value in use. The carrying amount is reduced to the recoverable amount and the difference is recognised as an expense (impairment loss) in the profit or losses. An impairment loss recognised in prior periods is reversed if there has been a positive change in the estimates used to determine an asset's recoverable amount.

Costs of minor repairs and maintenance are expensed when incurred. Cost of replacing major parts or components of property, plant and equipment items are capitalised and the replaced part is retired. Gains and losses arising from disposal of property, plant and equipment are included in profit or losses.

Social assets are not capitalised as they are not expected to result in future economic benefits to the Group. Costs associated with fulfilling the Group's social responsibilities are expensed as incurred.

Depreciation of property, plant and equipment is calculated on a straight-line basis over the estimated useful life of the asset when it is available for use. Depreciation commences on the date of acquisition, or in respect of internally constructed assets, from the time the asset is completed and ready for use.

The estimated useful lives, in years, of assets by type of facility are as follows:

Type of facility	Acquired prior to 1 January 2007*	Acquired subsequent to 1 January 2007
Production buildings	4-50	50
Hydrotechnical buildings	3-50	50
Generating equipment	6-30	20-30
Heating networks	3-20	20
Other	3-25	10-25

** remaining useful lives as at the date of assessment*

The residual value of an asset is the estimated amount that the Group would currently obtain from disposal of the asset less the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, and other short-term highly liquid investments with original maturities of three months or less. Cash and cash equivalents are carried at amortised cost using the effective interest method.

Inventories

Inventories are recorded at the lower of cost and net realisable value. Cost of inventory is determined on the weighted average basis. Net realisable value is the estimated selling price in the ordinary course of business, less the cost of completion and selling expenses.

Value added tax on purchases and sales

Output value added tax ("VAT") related to sales is payable to tax authorities on the earlier of (a) collection of the receivables from customers or (b) delivery of the goods or services to customers. Input VAT is generally recoverable against output VAT upon receipt of the VAT invoice. The tax authorities permit the settlement of VAT on a net basis. VAT related to sales and purchases is recognised in the balance sheet on a gross basis and disclosed separately as an asset and liability. Where provision has been made for the impairment of receivables, an impairment loss is recorded for the gross amount of the debtor, including VAT.

Long-term input VAT is recognised upon initial recognition at nominal amount. Any IAS36 type impairment indicator, which would include a delay in cash flows beyond those initial expected, would result in impairment. The impairment would be the difference between carrying amount (nominal) and the present value of the latest expected cash flows.

Accounts receivable

Accounts receivable are recorded inclusive of VAT. Trade receivables are recognised initially at fair value and subsequently measured at amortized cost using the effective interest rate method less provision for impairment. Such a provision for impairment of accounts receivable is established if there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. The amount of the provision is the difference between the carrying amount and the recoverable amount, being the present value of expected cash flows, discounted at the original effective interest rate. The carrying amount of the asset is reduced through the use of provision for impairment account. When a trade receivable is uncollectible, it is written off against the provision for impairment of trade receivables. Subsequent recoveries of amounts previously written off are credited against operating costs in the profit or losses. The primary factors that the Group considers whether a receivable is impaired is its overdue status and realisability of related collateral, if any. The following are the other principal criteria used to determine whether there is objective evidence that an impairment loss has occurred:

- any portion of the receivable is overdue and the late payment cannot be attributed to a delay caused by the settlement systems;
- the counterparty experiences a significant financial difficulty as evidenced in the financial information that the Group obtains;
- the counterparty undergoes bankruptcy or a financial reorganisation;
- there is an adverse change in the payment status of the counterparty as a result of changes in the national or local economic conditions that impact the counterparty;
- the value of collateral, if any, significantly decreases as a result of deteriorating market conditions.

Prepayments

Prepayments are carried at cost less any provision for impairment. A prepayment is classified as non-current when the goods or services relating to the prepayment are expected to be obtained after more than one year, or when the prepayment relates to an asset which will itself be classified as non-current upon initial recognition. Prepayments to acquire assets are transferred to the carrying amount of the asset once the Group has obtained control of the asset and it is probable that future economic benefits associated with the asset will flow to the Group. Other prepayments offset when the goods or services relating to the prepayments are received. If there is an indication that the assets, goods or services relating to a prepayment will not be received, the carrying value of the prepayment is written down accordingly and a corresponding impairment loss is recognised in profit or loss.

Classification, recognition and measurement of financial assets

The Group classifies its financial assets into the following measurement categories available-for-sale and loans and receivables.

Loans and receivables are unquoted non-derivative financial assets with fixed or determinable payments other than those that the Group intends to sell in the near term.

All other financial assets are included in the available-for-sale category. Available-for-sale investments are carried at fair value. Dividends on available-for-sale equity instruments are recognised in profit or loss when the Group's right to receive payment is established. All other

elements of changes in the fair value are deferred in equity until the investment is derecognised or impaired at which time the cumulative gain or loss is transferred from equity to profit or loss.

Impairment losses for available-for-sale investments are recognised in profit or loss when incurred as a result of one or more events (“loss events”) that occurred after the initial recognition of available-for-sale investments. A significant or prolonged decline in the fair value of an equity security below its cost is an indicator that it is impaired. The cumulative impairment loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that asset previously recognised in profit or loss – is removed from equity and recognised in profit or loss. Impairment losses on equity instruments are not reversed through profit or loss. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through current period’s profit or loss.

Classification of financial liabilities

The Group classifies its financial liabilities into other financial liabilities which are carried at amortised cost.

Initial recognition of financial instruments

Trading investments, derivatives and other financial instruments at fair value through profit or loss are initially recorded at fair value. All other financial assets and liabilities are initially recorded at fair value plus transaction costs. Fair value at initial recognition is best evidenced by the transaction price. A gain or loss on initial recognition is only recorded if there is a difference between fair value and transaction price which can be evidenced by other observable current market transactions in the same instrument or by a valuation technique whose inputs include only data from observable markets.

All purchases and sales of financial assets that require delivery within the time frame established by regulation or market convention (“regular way” purchases and sales) are recorded at trade date, which is the date that the Group commits to deliver a financial asset. All other purchases are recognised when the entity becomes a party to the contractual provisions of the instrument.

Derecognition of financial assets

The Group derecognises financial assets when (a) the assets are redeemed or the rights to cash flows from the assets otherwise expired or (b) the Group has transferred the rights to the cash flows from the financial assets or entered into a qualifying pass-through arrangement while (i) also transferring substantially all the risks and rewards of ownership of the assets or (ii) neither transferring nor retaining substantially all risks and rewards of ownership but not retaining control. Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose additional restrictions on the sale.

Accounts payable and accrued liabilities

Accounts payable are stated inclusive of VAT. Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest rate method. If accounts payable are restructured and the discounted present value of the cash flows under the restructured terms discounted using the original effective interest rate differs by more than ten percent from the discounted present value of the remaining cash flows of the original financial liability, then the fair value of the restructured payable is measured as the discounted present value of the cash flows under the restructured terms. In this case the amount of the discount is credited to finance costs as a gain on restructuring, and the non-current portion of the discounted payable is classified as other non-current liabilities. The discount is amortized as an interest expense.

Borrowings

Borrowings are recognized initially at its’ fair value. In subsequent periods, borrowings are stated at amortized cost using the effective yield method; any difference between the fair value at initial recognition (net of transaction costs) and the redemption amount is recognized as an interest expense over the period of the borrowing obligation. Interest costs on borrowings to finance the construction of property, plant and equipment are capitalised during the period of time that is required to complete and prepare the asset for its intended use. All other borrowing costs are expensed.

Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions. Government

grants relating to the purchase of property, plant and equipment are included in non-current liabilities as deferred income and are credited to the profit or losses on a straight line basis over the expected lives of the related assets.

Government grants relating to costs are deferred and recognised in the profit or losses over the period necessary to match them with the costs that they are intended to compensate.

Non-controlling interest

Non-controlling interest represents the non-controlling shareholders' proportionate share of the equity and results of operations of the Company's subsidiaries. This has been calculated based upon the non-controlling interests' ownership percentage of these subsidiaries. In purchases of non-controlling interest, difference, if any, between the carrying amount of a non-controlling interest and the amount paid to acquire it is recorded directly in equity.

Provisions for liabilities and charges

Provisions for liabilities and charges are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Where the Group expects a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

Pension and post-employment benefits

In the normal course of business the Group contributes to the Russian Federation defined contribution state pension scheme on behalf of its employees. Mandatory contributions to the governmental pension scheme are expensed when incurred.

The Group also operates defined benefit plans. In respect of some of these plans the Group has a contract with a non-governmental pension fund, whilst the other plans are operated by the Group without engaging pension funds.

Cash paid by the Group to the solidarity account with the non-governmental pension fund is refundable to the Group until it is allocated to individual pensioners' bank accounts, and, on that basis, is accounted for by the Group as an asset (accounts receivable from the pension fund).

Defined benefit plans determine the amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation. The liability recognised in the balance sheet in respect of defined benefit pension plans operated by the Group is the present value of the defined benefit obligation at the balance sheet date, together with adjustments for unrecognised actuarial gains or losses and past service cost. All defined benefit plans are considered to be fully unfunded. The defined benefit obligations are calculated using the projected unit credit method. The present value of the defined benefit obligations is determined by discounting the estimated future cash outflows using interest rates of government bonds that are denominated in the currency in which the benefits associated with the operations of the plan will be paid, and that have terms to maturity approximating the terms of the related post-employment benefits.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions in excess of the greater of 10% of the value of plan assets or 10% of the defined benefit obligations are charged or credited to the other comprehensive income over the employees' expected average remaining working lives.

Income tax

Income taxes have been provided for in these consolidated financial statements in accordance with the Russian legislation enacted or substantively enacted by the balance sheet date. The income tax charge comprises current tax and deferred tax and is recognised in the profit or losses unless it relates to transactions that are recognised, in the same or a different period, directly in equity.

Current tax is the amount expected to be paid to or recovered from the taxation authorities in respect of taxable profits or losses for the current and prior periods. Taxes other than on income are recorded within operating expenses.

Provisions for undeclared taxes, and related interest and penalties, are recognised when the Group has a present legal obligation, and a reliable estimate of the amount can be made. A provision is recognised for undeclared taxes and interest when they become payable according to law. The provisions are maintained, and updated if necessary, for the period over which the respective tax positions remain subject to review by the tax and customs authorities, being 3 years from the year of filing. Upon expiry of the review period, the provisions are released and disclosed as a contingent liability until the accounting documentation maintenance period expires, being an additional 2 years (i.e. 5 years in total).

Liabilities for undeclared taxes, interest and penalties are calculated based on management's best estimate of the obligations, in accordance with rates set out in the respective laws in effect at the balance sheet date.

The Group's uncertain tax positions are reassessed by management at every balance sheet date. Liabilities are recorded for income tax positions that are determined by management as more likely than not to result in additional taxes being levied if the positions were to be challenged by the tax authorities. The assessment is based on the interpretation of tax laws that have been enacted or substantively enacted by the balance sheet date and any known court or other rulings on such issues. Liabilities for penalties, interest and taxes other than on income are recognised based on management's best estimate of the expenditure required to settle the obligations at the balance sheet date.

Deferred income tax is provided using the balance sheet liability method for tax loss carry forwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. In accordance with the initial recognition exemption, deferred taxes are not recorded for temporary differences on initial recognition of an asset or a liability in a transaction other than a business combination if the transaction, when initially recorded, affects neither accounting nor taxable profit. Deferred tax balances are measured at tax rates enacted or substantively enacted at the balance sheet date which are expected to apply to the period when the temporary differences will reverse or the tax loss carry forwards will be utilised. Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised. Deferred tax assets and liabilities are netted only within the individual entities of the Group.

Deferred tax is not provided for the undistributed earnings of the subsidiary, as the Group requires profits to be reinvested, and only insignificant dividends are expected to be declared from future profits of the subsidiary. Neither these future profits nor the related taxes are recognised in these consolidated financial statements.

Revenue recognition

Revenue is recognised on the delivery of electricity and heat and on the dispatch of non-utility goods and services during the period. Revenue amounts are presented exclusive of VAT. Revenues are measured at the fair value of the consideration received or receivable.

Operating lease

Where the Group is a lessee in a lease which does not transfer substantially all the risks and rewards incidental to ownership from the lessor to the Group, the total lease payments are charged to profit or losses on a straight-line basis over the period of the lease. The lease term is the non-cancellable period for which the lessee has contracted to lease the asset together with any further terms for which the lessee has the option to continue to lease the asset, with or without further payment, when at the inception of the lease it is reasonably certain that the lessee will exercise the option.

Equity

Share capital. Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds. Any excess of the fair value of consideration received over the par value of shares issued is recorded in equity as share premium.

Merger reserve. Any difference between the carrying value of the net assets merged into the Group as a result of a transaction under common control, and the nominal value of any shares issued is recorded in equity, as a merger reserve.

Treasury shares. Where the Company purchases its equity share capital, the consideration paid, including any directly attributable incremental costs (net of income taxes), is deducted from equity attributable to the Company's equity holders until the shares are cancelled, reissued or disposed of. Where such shares are subsequently sold or reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the Company's equity holders.

Dividends. Dividends are recognised as a liability and deducted from equity at the balance sheet date only if they are declared before or on the balance sheet date. Dividends are disclosed when they are proposed before the balance sheet date or proposed or declared after the balance sheet date but before the financial statements are authorised for issue.

Environmental liabilities

Liabilities for environmental remediation are recorded where there is a present obligation, the payment is probable and reliable estimates can be made.

Earnings per share

Earnings per share are determined by dividing the profit attributable to ordinary shareholders of the Parent by the weighted average number of ordinary shares outstanding during the reporting period.

Segment reporting

Operating segments are defined as types of operations that generate revenue and incur expenses that are covered by separate financial information regularly submitted to the decision-making body which is represented by the Company's Management Board. Primary activity of the Group is production of electric and heat power and capacity. The Group generates its revenues from the generation of electricity and heat in Russian Federation, so the Group holds assets in the same geographical area - the Russian Federation. The technology of electricity and heat production does not allow segregation of electricity and heat segments (see Note 28).

Seasonality

Demand for electricity and heat is influenced by both the seasons of the year and the relative severity of the weather. Revenues from sales of heat are concentrated within the months of October to March. A similar, although less intense, concentration of electricity sales occurs within the same period. The seasonality of electricity and heat production has a corresponding impact on the usage of fuel and the purchase of power.

Furthermore, during the periods of lower production from April to September, there is an increase in the expenditures on repairs and maintenance. This seasonality does not impact the revenue or cost recognition policies of the Group.

Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale (a qualifying asset) form are part of the cost of that asset.

The Group capitalises borrowing costs that would have been avoided if it had not made capital expenditure on qualifying assets. The commencement date for capitalisation is when (i) the Group incurs expenditures for the qualifying asset; (ii) it incurs borrowing costs; and (iii) it undertakes activities that are necessary to prepare the asset for its intended use or sale. Capitalisation ceases when all the activities necessary to prepare the qualifying asset for its intended use or sale are complete.

Interest or other investment income is not deducted in arriving at the amount of borrowing costs available for capitalisation, except where the Group obtains specific borrowings for the purpose of acquiring a qualifying asset and has investment income on the temporary investment of funds obtained through such specific borrowings.

Other borrowing costs are recognised as an expense on an accrual basis using the effective interest method. Interest income includes nominal interest and accrued discount and premium.

Note 5. New Accounting Pronouncements

Certain new standards and interpretations have been published that are mandatory for the Group's accounting periods beginning on or after 1 January 2010 or later periods and which the Group has not early adopted:

IFRS 8, Operating Segments. The standard applies to entities whose debt or equity instruments are traded in a public market or that file, or are in the process of filing, their financial statements with a regulatory organisation for the purpose of issuing any class of instruments in a public market. IFRS 8 requires an entity to report financial and descriptive information about its operating segments, with segment information presented on a similar basis to that used for internal reporting purposes. The revised IFRS 8 had an impact on the presentation of information about its operating segments but had no impact on the recognition or measurement of specific transactions and balances.

IAS 23, Borrowing Costs, revised in March 2007. The main change is the removal of the option of immediately recognising as an expense borrowing costs that relate to assets that take a substantial period of time to get ready for use or sale. Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale (a qualifying asset) form part of the cost of that asset, if the commencement date for capitalisation is on or after 1 January 2009. Other borrowing costs are recognised as an expense using the effective interest method. The revised IAS 23 did not have impact on this financial statement.

IAS 1, Presentation of Financial Statements, revised in September 2007. The main change in IAS 1 is the replacement of the income statement by a statement of comprehensive income which includes all non-owner changes in equity, such as the revaluation of available-for-sale financial assets. Alternatively, entities are allowed to present two statements: a separate income statement and a statement of comprehensive income. The Company has elected to present a separate income statement and a statement of comprehensive income. The revised IAS 1 also introduces a requirement to present a balance sheet (Statement of Financial Position) at the beginning of the earliest comparative period whenever the entity restates comparatives due to reclassifications, changes in accounting policies, or corrections of errors. The revised IAS 1 had an impact on the presentation of the Company's financial statements but had no impact on the recognition or measurement of specific transactions and balances.

Improvements to International Financial Reporting Standards (issued in May 2009). In 2008, the International Accounting Standards Board decided to initiate an annual improvements project as a method of making necessary, but non-urgent, amendments to IFRS. The amendments consist of a mixture of substantive changes, clarifications, and changes in terminology in various standards. The substantive changes relate to the following areas: classification as held for sale under IFRS 5 in case of a loss of control over a subsidiary; possibility of presentation of financial instruments held for trading as non-current under IAS 1; accounting for sale of IAS 16 assets which were previously held for rental and classification of the related cash flows under IAS 7 as cash flows from operating activities; clarification of definition of a curtailment under IAS 19; accounting for below market interest rate government loans in accordance with IAS 20; making the definition of borrowing costs in IAS 23 consistent with the effective interest method; clarification of accounting for subsidiaries held for sale under IAS 27 and IFRS 5; reduction in the disclosure requirements relating to associates and joint ventures under IAS 28 and IAS 31; enhancement of disclosures required by IAS 36; clarification of accounting for advertising costs under IAS 38; amending the definition of the fair value through profit or loss category to be consistent with hedge accounting under IAS 39; introduction of accounting for investment properties under construction in accordance with IAS 40; and reduction in restrictions over manner of determining fair value of biological assets under IAS 41. Further amendments made to IAS 8, 10, 18, 20, 29, 34, 40, 41 and to IFRS 7 represent terminology or editorial changes only, which the IASB believes have no or minimal effect on accounting. The amendments did not have an impact on the Company.

Puttable Financial Instruments and Obligations Arising on Liquidation - IAS 32 and IAS 1 Amendment. The amendment requires classification as equity of some financial instruments that meet the definition of financial liabilities. The amendment did not have an impact on these financial statements.

Vesting Conditions and Cancellations - Amendment to IFRS 2, Share-based Payment. The amendment clarified that only service conditions and performance conditions are vesting conditions. Other features of a share-based payment are not vesting conditions. The amendment specifies that all cancellations, whether by the entity or by other parties, should receive the same accounting treatment. The amendment did not have an impact on these financial statements.

IFRIC 13, Customer Loyalty Programmes. IFRIC 13 clarifies that where goods or services are sold together with a customer loyalty incentive (for example, loyalty points or free products), the arrangement is a multiple-element arrangement and the consideration receivable from the customer is allocated between the components of the arrangement using fair values. The amendment did not have an impact on these financial statements.

IFRIC 15, Agreements for the Construction of Real Estate. The interpretation applies to the accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors, and provides guidance for determining whether agreements for the construction of real estate are within the scope of IAS 11 or IAS 18. It also provides criteria for determining when entities should recognise revenue on such transactions. The amendment did not have an impact on these financial statements.

Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate - IFRS 1 and IAS 27 Amendment, issued in May 2008. The amendment allows first-time adopters of IFRS to measure investments in subsidiaries, jointly controlled entities or associates at fair value or at previous GAAP carrying value as deemed cost in the separate financial statements. The amendment also requires distributions from pre-acquisition net assets of investees to be recognised in profit or loss rather than as a recovery of the investment. The amendment did not have an impact on these financial statements.

Improving Disclosures about Financial Instruments - Amendment to IFRS 7, Financial Instruments: Disclosures, issued in March 2009. The amendment requires enhanced disclosures about fair value measurements and liquidity risk. The entity is required to disclose an analysis of financial instruments using a three-level fair value measurement hierarchy. The amendment (a) clarifies that the maturity analysis of liabilities should include issued financial guarantee contracts at the maximum amount of the guarantee in the earliest period in which the guarantee could be called; and (b) requires disclosure of remaining contractual maturities of financial derivatives if the contractual maturities are essential for an understanding of the timing of the cash flows. An entity will further have to disclose a maturity analysis of financial assets it holds for managing liquidity risk, if that information is necessary to enable users of its financial statements to evaluate the nature and extent of liquidity risk. The enhanced disclosures are included in these financial statements.

Embedded Derivatives - Amendments to IFRIC 9 and IAS 39, issued in March 2009. The amendments clarify that on reclassification of a financial asset out of the 'at fair value through profit or loss' category, all embedded derivatives have to be assessed and, if necessary, separately accounted for. The amendment did not have an impact on these financial statements.

IFRIC 16, Hedges of a Net Investment in a Foreign Operation. The interpretation explains which currency risk exposures are eligible for hedge accounting and states that translation from the functional currency to the presentation currency does not create an exposure to which hedge accounting could be applied. The IFRIC allows the hedging instrument to be held by any entity or entities within a group except the foreign operation that itself is being hedged. The interpretation also clarifies how the currency translation gain or loss reclassified from other comprehensive income to profit or loss is calculated on disposal of the hedged foreign operation. Reporting entities apply IAS 39 to discontinue hedge accounting prospectively when their hedges do not meet the criteria for hedge accounting in IFRIC 16. IFRIC 16 did not have an impact on these financial statements.

Certain new standards and interpretations have been published that are mandatory for the Company's accounting periods beginning on or after 1 January 2010 or later periods and which the Company has not early adopted:

IFRIC 17, Distribution of Non-Cash Assets to Owners (effective for annual periods beginning on or after 1 July 2009). The amendment clarifies when and how distribution of non-cash assets as dividends to the owners should be recognised. An entity should measure a liability to distribute non-cash assets as a dividend to its owners at the fair value of the assets to be distributed. A gain or loss on disposal of the distributed non-cash assets will be recognised in profit or loss when the entity settles the dividend payable. IFRIC 17 is not relevant to the Company's operations because it does not distribute non-cash assets to owners.

IFRIC 18, Transfers of Assets from Customers (effective for annual periods beginning on or after 1 July 2009). The interpretation clarifies the accounting for transfers of assets from customers, namely, the circumstances in which the definition of an asset is met; the recognition of the asset and the measurement of its cost on initial recognition; the identification of the separately identifiable services (one or more services in exchange for the transferred asset); the recognition of revenue, and

the accounting for transfers of cash from customers. IFRIC 18 is not expected to have any impact on the Company's financial statements.

Classification of Rights Issues - Amendment to IAS 32 (issued 8 October 2009; effective for annual periods beginning on or after 1 February 2010). The amendment exempts certain rights issues of shares with proceeds denominated in foreign currencies from classification as financial derivatives.

IAS 27, Consolidated and Separate Financial Statements (revised January 2009; effective for annual periods beginning on or after 1 July 2009). The revised IAS 27 will require an entity to attribute total comprehensive income to the owners of the parent and to the non-controlling interests (previously "minority interests") even if this results in the non-controlling interests having a deficit balance (the current standard requires the excess losses to be allocated to the owners of the parent in most cases). The revised standard specifies that changes in a parent's ownership interest in a subsidiary that do not result in the loss of control must be accounted for as equity transactions. It also specifies how an entity should measure any gain or loss arising on the loss of control of a subsidiary. At the date when control is lost, any investment retained in the former subsidiary will have to be measured at its fair value. The Company does not expect the amended standard to have a material effect on its financial statements.

IFRS 3, Business Combinations (revised January 2009; effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009). The revised IFRS 3 will allow entities to choose to measure non-controlling interests using the existing IFRS 3 method (proportionate share of the acquiree's identifiable net assets) or at fair value. The revised IFRS 3 is more detailed in providing guidance on the application of the purchase method to business combinations. The requirement to measure at fair value every asset and liability at each step in a step acquisition for the purposes of calculating a portion of goodwill has been removed. Instead, in a business combination achieved in stages, the acquirer will have to remeasure its previously held equity interest in the acquiree at its acquisition-date fair value and recognise the resulting gain or loss, if any, in profit or loss. Acquisition-related costs will be accounted for separately from the business combination and therefore recognised as expenses rather than included in goodwill. An acquirer will have to recognise at the acquisition date a liability for any contingent purchase consideration. Changes in the value of that liability after the acquisition date will be recognised in accordance with other applicable IFRSs, as appropriate, rather than by adjusting goodwill. The revised IFRS 3 brings into its scope business combinations involving only mutual entities and business combinations achieved by contract alone. IFRS 3 is not relevant to the Company as it does not expect a business combination to occur.

Eligible Hedged Items - Amendment to IAS 39, Financial Instruments: Recognition and Measurement (effective with retrospective application for annual periods beginning on or after 1 July 2009). The amendment clarifies how the principles that determine whether a hedged risk or portion of cash flows is eligible for designation should be applied in particular situations. The amendment is not expected to have any impact on the Company's financial statements as the Company does not apply hedge accounting.

IFRS 1, First-time Adoption of International Financial Reporting Standards (following an amendment in December 2009, effective for the first IFRS financial statements for a period beginning on or after 1 July 2009). The revised IFRS 1 retains the substance of its previous version but within a changed structure in order to make it easier for the reader to understand and to better accommodate future changes. The Company concluded that the revised standard does not have any effect on its financial statements.

Group Cash-settled Share-based Payment Transactions - Amendments to IFRS 2, Share-based Payment (effective for annual periods beginning on or after 1 January 2010). The amendments provide a clear basis to determine the classification of share-based payment awards in both consolidated and separate financial statements. The amendments incorporate into the standard the guidance in IFRIC 8 and IFRIC 11, which are withdrawn. The amendments expand on the guidance given in IFRIC 11 to address plans that were previously not considered in the interpretation. The amendments also clarify the defined terms in the Appendix to the standard. The Company does not expect the amendments to have any material effect on its financial statements.

Additional Exemptions for First-time Adopters - Amendments to IFRS 1, First-time Adoption of IFRS (effective for annual periods beginning on or after 1 January 2010). The amendments exempt entities using the full cost method from retrospective application of IFRSs for oil and gas assets and also exempt entities with existing leasing contracts from reassessing the classification of those contracts in accordance with IFRIC 4, 'Determining Whether an Arrangement Contains a Lease' when the

application of their national accounting requirements produced the same result. The amendments will not have any impact on the Company's financial statements.

Improvements to International Financial Reporting Standards (issued in April 2009; amendments to IFRS 2, IAS 38, IFRIC 9 and IFRIC 16 are effective for annual periods beginning on or after 1 July 2009; amendments to IFRS 5, IFRS 8, IAS 1, IAS 7, IAS 17, IAS 36 and IAS 39 are effective for annual periods beginning on or after 1 January 2010). The improvements consist of a mixture of substantive changes and clarifications in the following standards and interpretations: clarification that contributions of businesses in common control transactions and formation of joint ventures are not within the scope of IFRS 2; clarification of disclosure requirements set by IFRS 5 and other standards for non-current assets (or disposal groups) classified as held for sale or discontinued operations; requiring to report a measure of total assets and liabilities for each reportable segment under IFRS 8 only if such amounts are regularly provided to the chief operating decision maker; amending IAS 1 to allow classification of certain liabilities settled by entity's own equity instruments as non-current; changing IAS 7 such that only expenditures that result in a recognised asset are eligible for classification as investing activities; allowing classification of certain long-term land leases as finance leases under IAS 17 even without transfer of ownership of the land at the end of the lease; providing additional guidance in IAS 18 for determining whether an entity acts as a principal or an agent; clarification in IAS 36 that a cash generating unit shall not be larger than an operating segment before aggregation; supplementing IAS 38 regarding measurement of fair value of intangible assets acquired in a business combination; amending IAS 39 (i) to include in its scope option contracts that could result in business combinations, (ii) to clarify the period of reclassifying gains or losses on cash flow hedging instruments from equity to profit or loss and (iii) to state that a prepayment option is closely related to the host contract if upon exercise the borrower reimburses economic loss of the lender; amending IFRIC 9 to state that embedded derivatives in contracts acquired in common control transactions and formation of joint ventures are not within its scope; and removing the restriction in IFRIC 16 that hedging instruments may not be held by the foreign operation that itself is being hedged. The Company does not expect the amendments to have any material effect on its financial statements.

Amendment to IAS 24, Related Party Disclosures (issued in November 2009 and effective for annual periods beginning on or after 1 January 2011). IAS 24 was revised in 2009 by: (a) simplifying the definition of a related party, clarifying its intended meaning and eliminating inconsistencies; and by (b) providing a partial exemption from the disclosure requirements for government-related entities. Management of the Group currently assesses the potential effect of the amendment.

IFRS 9, Financial Instruments Part 1: Classification and Measurement. IFRS 9 was issued in November 2009 and replaces those parts of IAS 39 relating to the classification and measurement of financial assets. Key features are as follows:

- Financial assets are required to be classified into two measurement categories: those to be measured subsequently at fair value, and those to be measured subsequently at amortised cost. The decision is to be made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument.
- An instrument is subsequently measured at amortised cost only if it is a debt instrument and both (i) the objective of the entity's business model is to hold the asset to collect the contractual cash flows, and (ii) the asset's contractual cash flows represent only payments of principal and interest (that is, it has only "basic loan features"). All other debt instruments are to be measured at fair value through profit or loss.
- All equity instruments are to be measured subsequently at fair value. Equity instruments that are held for trading will be measured at fair value through profit or loss. For all other equity investments, an irrevocable election can be made at initial recognition, to recognise unrealised and realised fair value gains and losses through other comprehensive income rather than profit or loss. There is to be no recycling of fair value gains and losses to profit or loss. This election may be made on an instrument-by-instrument basis. Dividends are to be presented in profit or loss, as long as they represent a return on investment.
- While adoption of IFRS 9 is mandatory from 1 January 2013, earlier adoption is permitted.

IFRIC 19, Extinguishing Financial Liabilities with Equity Instruments (issued in November 2009, effective for annual periods beginning on or after 1 July 2010 with earlier application permitted). The interpretation clarifies the requirements of International Financial Reporting Standards (IFRSs) when an entity renegotiates the terms of a financial liability with its creditor and the creditor agrees

to accept the entity's shares or other equity instruments to settle the financial liability fully or partially. IFRIC 19 clarifies that a) the entity's equity instruments issued to a creditor are part of the consideration paid to extinguish the financial liability; b) the equity instruments issued are measured at their fair value. If their fair value cannot be reliably measured, the equity instruments should be measured to reflect the fair value of the financial liability extinguished; c) the difference between the carrying amount of the financial liability extinguished and the initial measurement amount of the equity instruments issued is included in the entity's profit or loss for the period. The Company is considering the implications of the standard, the impact on the Company and the timing of its adoption by the Company.

Unless otherwise described above, the new standards and interpretations are not expected to significantly affect the Company's financial statements.

Note 6. Related Parties

Related parties are defined in IAS 24, *Related Party Disclosures*. Parties are generally considered to be related if one party has the ability to control the other party, is under common control, or can exercise significant influence or joint control over the other party in making financial and operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

Related parties include shareholders that have control or significant influence over the Company, and key management personnel, as well as companies that are controlled by the State.

During 2008 RAO UES ceased to exist as a related party in respect of OJSC TGC-1 after its reorganisation (see Note 1). Since 23 June 2008 the single largest shareholder of the Group is Gazprom Group holding 51.79% and 28,66% of voting shares as at 31 December 2009 and 31 December 2008 respectively.

As at 31 December 2009 the Russian Government was the ultimate controlling party of the Group, also the Group was under significant influence of the State as at 31 December 2008 and hence all transactions with other state-controlled entities should be disclosed as related party transactions in accordance with IAS 24 requirements.

The nature of the related party relationships for those related parties with whom the Group entered into significant transactions in the years ended 31 December 2009 and 31 December 2008, and had significant balances outstanding at 31 December 2009 and at 31 December 2008 are detailed below.

Gazprom Group and its subsidiaries

Transactions with Gazprom Group and its subsidiaries were as follows:

	Year ended 31 December 2009	Year ended 31 December 2008
Sales of electricity	2 588 901	790 042
Sales of promissory notes	1 315 821	-
Purchases of fuel	(12 980 539)	(12 675 224)
Purchases of promissory notes	(1 238 790)	-
Interest expense	(73)	-
Interest income	36 040	4 013
Total expenses	**(10 278 640)**	**(11 881 169)**

Balances with Gazprom Group subsidiaries at the end of the period were as follows:

	31 December 2009	31 December 2008
Accounts receivable and prepayments	1 032 359	991 630
Cash and cash equivalents	172 477	1 364 475
Available-for-sale investments	7 095	66 762
Other non-current assets	-	11 070
Accounts payable and accrued liabilities	(251 024)	(39 506)

State-controlled entities

In the normal course of business the Group enters into transactions with other entities under Government control. Prices for natural gas and heat electricity and heat are based on tariffs set by FST, prices for electricity and capacity based on tariffs set by FST and also based on competitive take-off on the wholesale electricity (capacity) market Bank loans are obtained at market rates. Taxes are charged and paid under the Russian tax legislation.

The Group had the following significant transactions with state-controlled entities:

	Year ended 31 December 2009	Year ended 31 December 2008
Sales		
Sales of heating	7 462 484	9 224 411
Sales of electricity	14 327 896	11 401 301
Other sales	121 162	140 810
Total sales	**21 911 542**	**20 766 522**
Expenses		
Water usage expenses	(1 697 270)	(1 681 541)
Electricity purchases	(4 046 774)	(2 399 565)
Heat distribution	(1 347 188)	(1 134 582)
Interest expenses	(252 718)	(28 027)
Security services	(338 004)	(264 818)
Operating lease	(343 272)	(219 181)
Transportation expenses	(12 414)	(13 346)
Interest income	23 709	242 005
Grants	-	331 387
Gain from property plant and equipment received as compensation	1 376 517	-
Other expenses	(738 972)	(578 056)
Total expenses	**(7 376 386)**	**(5 745 724)**

In 2009 the Group concluded a compensation agreement with one of municipal authority in respect of recovering damage to TGC-1 for heating networks broken during construction works of municipal roads. Therefore in 2009 the Group obtained and recognised property plant and equipment received and respective gain in profit or losses for the total amount of RUB 1 376 517 thousand (see Note 22).

In 2008 the Group obtained and recognised in profit or losses a government grant of RUB 331 387 thousand to compensate for losses caused by high fuel oil prices at Murmanskaya TPP incurred.

The Group has no unfulfilled commitments on government grants as at 31 December 2009 and 31 December 2008.

The Group had the following significant balances with the state-controlled entities:

	31 December 2009	31 December 2008
Cash and cash equivalents	25 504	46 945
Accounts receivable and prepayments	1 879 262	2 884 608
Borrowings	3 220 057	1 758 947
Accounts payable and accrued liabilities	985 008	889 150

Transactions with other related parties

The Group had the following significant transactions and balances with its shareholder Fortum Power and Heat Oy which has significant influence over Group:

	Year ended 31 December 2009	**Year ended 31 December 2008**
Sales of electricity	678 893	243 805

	31 December 2009	**31 December 2008**
Accounts receivable and prepayments	61 067	49 115

Transactions and balances with the Non-state pension fund of electrical energy industry are disclosed in Note 17.

Transactions with the Board of Directors and key management personnel

Total remuneration in the form of salary and bonuses paid to the members of the Board of Directors and key management personnel for the year ended 31 December 2009 was RUB 105 857 thousand (2008: RUB 126 521 thousand). All remuneration falls under short-term employee benefits definition in IAS 19 “Employee Benefits”.

Note 7. Property, Plant and Equipment

Cost	Production buildings	Hydrotechnical buildings	Generating equipment	Heating networks	Construction in progress	Other	Total
Balance as at 31 December 2008	**14 805 875**	**16 550 921**	**13 685 741**	**27 558 799**	**26 779 896**	**16 440 714**	**115 821 946**
Effect of reclassifications	-	-	(1 748)	-	-	1 748	-
Balance as at 31 December 2008 including reclassifications	**14 805 875**	**16 550 921**	**13 683 993**	**27 558 799**	**26 779 896**	**16 442 462**	**115 821 946**
Additions	1 201	-	39 960	-	18 255 133	97 805	18 394 099
Transfers	235 435	81 938	5 348 910	3 137 096	(10 251 949)	1 448 570	-
Disposals	(13 531)	(17)	(1 588)	(425 904)	(55 795)	(55 706)	(552 541)
Balance as at 31 December 2009	**15 028 980**	**16 632 842**	19 071 275	**30 269 991**	**34 727 285**	**17 933 131**	**133 663 504**
Accumulated depreciation (including impairment)							
Balance as at 31 December 2008	**(5 775 671)**	**(6 030 927)**	**(8 087 294)**	**(20 155 406)**	**-**	**(11 682 209)**	**(51 731 507)**
Effect of reclassifications	306 985	(8 295)	(259 566)	(34 845)	-	(4 279)	-
Balance as at 31 December 2008 including reclassifications	**(5 468 686)**	**(6 039 222)**	**(8 346 860)**	**(20 190 251)**	**-**	**(11 686 488)**	**(51 731 507)**
Charge for the year	(574 470)	(512 303)	(524 107)	(635 360)	-	(544 450)	(2 790 690)
Disposals	6 858	17	1 235	337 858	-	42 450	388 418
Impairment losses reversed during the year	(220 877)	-	(64 425)	(270 224)	(56 439)	(110 102)	(722 067)
Impairment losses recognised during the year	1 467 269	51 871	1 535 945	1 794 939	-	1 304 956	6 154 980
Balance as at 31 December 2009	**(4 789 906)**	**(6 499 637)**	**(7 398 212)**	**(18 963 038)**	**(56 439)**	**(10 993 634)**	**(48 700 866)**
Net book value as at 31 December 2008	**9 030 204**	**10 519 994**	**5 598 447**	**7 403 393**	**26 779 896**	**4 758 505**	**64 090 439**
Total effect of reclassification (Note 2)	306 985	(8 295)	(261 314)	(34 845)	-	(2 531)	-
Net book value as at 31 December 2008 including reclassification	**9 337 189**	**10 511 699**	**5 337 133**	**7 368 548**	**26 779 896**	**4 755 974**	**64 090 439**
Net book value as at 31 December 2009	**10 239 074**	**10 133 205**	**11 673 063**	**11 306 953**	**34 670 846**	**6 939 497**	**84 962 638**

Cost	Production buildings	Hydrotechnical buildings	Generating equipment	Heating networks	Construction in progress	Other	Total
Balance as at 31 December 2007	**14 525 011**	**16 434 963**	**11 982 406**	**25 445 937**	**10 946 172**	**14 998 352**	**94 332 841**
Additions	13 811	219	373 855	-	20 799 660	503 871	21 691 416
Transfers	288 440	116 544	1 447 245	2 112 862	(4 951 171)	986 080	-
Disposals	(21 387)	(805)	(117 765)	-	(14 765)	(47 589)	(202 311)
Balance as at 31 December 2008	**14 805 875**	**16 550 921**	**13 685 741**	**27 558 799**	**26 779 896**	**16 440 714**	**115 821 946**
Accumulated depreciation (including impairment)							
Balance as at 31 December 2007	**(5 855 371)**	**(5 536 616)**	**(7 855 788)**	**(19 390 758)**	**-**	**(11 654 775)**	**(50 293 308)**
Charge for the year	(467 212)	(510 980)	(764 856)	(540 007)	-	(467 372)	(2 750 427)
Disposals	11 786	672	84 556	-	-	35 766	132 780
Impairment losses reversed during the year	548 982	15 997	451 321	31 184	-	409 198	1 456 682
Impairment losses recognised during the year	(13 856)	-	(2 527)	(255 825)	-	(5 026)	(277 234)
Balance as at 31 December 2008	**(5 775 671)**	**(6 030 927)**	**(8 087 294)**	**(20 155 406)**	**-**	**(11 682 209)**	**(51 731 507)**
Net book value as at 31 December 2007	**8 669 640**	**10 898 347**	**4 126 618**	**6 055 179**	**10 946 172**	**3 343 577**	**44 039 533**
Net book value as at 31 December 2008	**9 030 204**	**10 519 994**	**5 598 447**	**7 403 393**	**26 779 896**	**4 758 505**	**64 090 439**

Construction in progress represents the carrying amount of property, plant and equipment that has not yet been made available for use in production, including generating stations under construction.

Other property, plant and equipment includes electricity transmission equipment, motor vehicles, computer equipment, office fixtures and other equipment.

As at 31 December 2009 the advances given to contractors amounted to RUB 5 582 257 thousand, net of VAT (as at 2008: RUB 11 615 356 thousand) are recognised within construction in progress balance. The respective input VAT is recognised within other non-current assets balance (see Note 10).

Property, plant and equipment with net book value of RUB 1 376 522 thousand were pledged as collateral according to loan agreements (31 December 2008: RUB 309 029 thousand) (see Note 16). The increase in net book value resulted in course of modernization of pledged property plant and equipment for the total amount of RUB 1 099 145 thousand.

Total amount of capitalized interests which were calculated using capitalisation rate equal 13% for the year ended 31 December 2009 is RUB 1 161 433 thousand (for the year ended 31 December 2008: RUB 67 680 thousand).

Impairment

As described in Note 3, management assessed the recoverability of property, plant and equipment as at 31 December 2009. Value in use was estimated through a review of discounted future cash flows for seven cash-generating units. The significant assumptions applied by management and the results of this impairment assessment are presented below.

Management considered recent favourable changes in operation of the Russian electricity market (see also Note 1) and reassessed recoverable amount of the Group's property, plant and equipment as at 31 December 2009. As a result, management believes that provision for impairment of property, plant and equipment previously recorded by the Group in respect of electricity and heat generating assets should be partially reversed as at 31 December 2009. The amount of reversal is estimated by management as RUB 6 154 980 thousand. The future tariff estimates used by management in forecasting future cash flows are based on the Scenery conditions of development energy sector of the Russian Federation for the 2009 – 2030 and the Key Parameters of Forecasting Social and Economic Development of the Russian Federation for 2009 and the 2010-2012, approved by the Ministry of Economic Development of the Russian Federation. The increased forecasted tariffs had the most significant positive impact on the projected cash flows of TPP of Nevsky branch and Heating Networks, where the increased revenue forecast are not offset by the corresponding fuel cost increases, so there has been a release of impairment provision related to the TPP of Nevsky branch and Heating Networks of RUB 4 294 989 thousand and RUB 1 859 991 thousand respectively. On the other hand, management recognised further impairment loss in respect of the property, plant and equipment of Murmanskaya TPP in the amount of RUB 722 067 thousand.

Management made the following significant assumptions when estimating the value in use of property, plant and equipment and determining the levels of impairment provisions as at 31 December 2009:

- average remaining useful lives have been estimated by management for separate cash generating units on the basis of a report by a consortium of independent appraisers as at 31 December 2006 and taking into account the latest capital investment programme of the Group, as follows:

Name of cash generating unit	Average remaining useful lives, years
Kolsky branch (HPS)	21
Karelsky branch (HPS)	16
Apatitskaya Thermal Power Plant (TPP)	5
HPS of Nevsky branch	21
TPP of Nevsky branch	13
Heating Network of Nevsky branch	15
Murmanskaya TPP	10

- increase in average selling price for electricity is 4% for 2010; further expected increase of average selling price for electricity is estimated by the management as 11%-15% p.a. in 2011-2012 and 1%-13% p.a. in 2013 and onwards;
- increase in average selling price for heat is 8% for 2010 for all of the Group's cash generating units except for Murmanskaya TPP; further expected increase of average selling price for heat is estimated by the management as 11%-14% p.a. in 2011-2012 and 1% -13% p.a. in 2013 and

onwards. The average selling price for heat at Murmanskaya TPP is expected to increase by 13% p.a. in 2010-2012;

- expected increase in fuel prices was estimated by management as 9%-10% p.a. for coal at Apatitskaya TPP and 12%-13% p.a. for gas at TPP of Nevsky branch on average in 2010-2012; 1%-13% p.a. for coal at Apatitskaya TPP and 1%-13% p.a. for gas at TPP of Nevsky branch in 2013 and onwards;
- for the cash generating unit Heating Network of Nevsky Branch the increase in tariffs for heat transportation was estimated in proportion to the heat tariffs increase;
- repair and maintenance expenses of Heating Network of Nevsky Branch were estimated on the basis of repair cost per 1 km of pipelines (RUB 41 890 thousand) applied to 11 km of heating networks requiring repairs on an annual basis;
- weighted average cost of capital of 14.07% was applied for discounting future operating cash flows generated by the Group from all cash generating units.

In management's opinion, the existing provision represents the best estimate of the impact of impairment as a result of the current economic conditions affecting the Group.

As at 31 December 2008, management also considered recent favourable changes in operation of the Russian electricity market and reassessed recoverable amount of the Group's property, plant and equipment. As a result, management believes that provision for impairment of property, plant and equipment previously recorded by the Group in respect of certain electricity and heat generating assets should be partially reversed as at 31 December 2009. The amount of reversal was estimated by management as RUB 1 456 683 thousand. The future tariff estimates used by management in forecasting the future cash flows are based on the Scenario of Economic Performance of the Russian Federation and the Key Parameters of Forecasting Social and Economic Development of the Russian Federation for 2009 and the 2010-2011 Planning Period, approved by the Ministry of Economic Development of the Russian Federation in May 2008.The impairment loss related to the Thermal Power Plants (further "TPP") of Nevsky branch and Apatitskaya TPP was reversed in the amount of RUB 1 456 683 thousand. Similarly, management recognised a further impairment loss in respect of the property, plant and equipment of Heating Network of Nevsky branch in the amount of RUB 277 234 thousand.

Management made the following significant assumptions when estimating the value in use of property, plant and equipment and determining the levels of impairment provisions as at 31 December 2008:

- average remaining useful lives have been estimated by management for each separate cash generating units on the basis of a report by a consortium of independent appraisers as at 31 December 2006 and taking into account the latest capital investment programme of the Group, as follows:

Name of cash generating unit	Average remaining useful lives, years
Kolsky branch (HPS)	20
Karelsky branch (HPS)	10
Apatitskaya Thermal Power Plant (TPP)	5
HPS of Nevsky branch	20
TPP of Nevsky branch	13
Heating Network of Nevsky branch	15
Murmanskaya TPP	9

- increase in average selling price for electricity is 21% for 2009; further expected increase of average selling price for electricity is estimated by the management as 21%-31% p.a. in 2010-2011 and 3%-11% p.a. in 2012 and onwards; increase in average selling price for electricity for Murmanskaya TPP is 13% for 2010; further expected increase of average selling price for electricity is estimated as 14%-17% p.a. in 2010-2011 and 3%-5% p.a. in 2012 and onwards;
- increase in average selling price for heat is 20% for 2009 for all of the Group's cash generating units except for Murmanskaya TPP; further expected increase of average selling price for heat is estimated by the management as 23%-24% p.a. in 2010-2011 and 4%-8% p.a. in 2012 and onwards. The average selling price for heat at Murmanskaya TPP is expected to increase by 18% p.a. in 2010-2011 and 2%-6% p. a. in 2012 and onwards;

- expected increase in fuel prices was estimated by management as 13% p.a. for coal at Apatitskaya TPP and 24% p.a. for gas at TPP of Nevsky branch on average in 2009-2011; 7% p.a. for coal at Apatitskaya TPP and 8% p.a. for gas at TPP of Nevsky branch in 2012 and onwards;
- increase in fuel oil price for Murmanskaya TPP is 1% for 2009; further expected increase in fuel oil price is estimated by the management as 20% in 2010 and 3%-5% p.a. in 2012 and onwards
- production volumes of electricity and heat for cash generating units were estimated by management as follows: it is expected decrease by 16% for Karelsky branch electricity volume, decrease by 2%-5% for HPS and TPP of Nevsky branch electricity volume, Karelsky branch heat volume and Apatitskaya TPP electricity and heat volume for 2009; increase by 3%-9% for Karelsky branch electricity volume, for Apatitskaya TPP heat volume and Karelsky branch heat volume and decrease for HPS of Nevsky branch electricity volume by 7%-14% in 2010-2011; management expects current level for Kolsky branch electricity volume and Karelsky branch heat volume, decrease by 2%-11% for HPS Nevsky branch electricity volume, general increase by 1%-2% for other cash generating units except Apatitskaya TPP for 2012 and onwards. Increase in production volumes of electricity and heat for Apatitskaya TPP is estimated by the management as 67% of electricity volume and as 61% of heat volume in 2012.
- increase in tariffs for Heating Network of Nevsky Branch complies with inflation rate;
- repair and maintenance expenses of Heating Network of Nevsky Branch were estimated on the basis of repair cost per 1 km of pipelines (RUB 57 222 thousand)of heating networks requiring repairs on an annual basis;
- weighted average cost of capital of 15.63% was applied for discounting future operating cash flows generated by the Group from all cash generating units.

Operating lease

The Group leases a number of land plots owned by local governments under operating leases. Land lease commitments are determined by lease agreements and were as follows:

	31 December 2009	31 December 2008
Not later than one year	94 988	66 577
Later than one year and not later than five years	355 150	323 821
Later than five years	2 098 952	1 563 682
Total operating lease	**2 549 090**	**1 954 080**

Note 8. Long-term Investments

	% of ownership	31 December 2009	31 December 2008
Available-for-sale investments			
Equity shares in OJSC “Inter RAO UES”	0.45%	-	64 507
Equity shares in OJSC “RusHydro”	0.02%	-	27 182
Other investments			
Investments in OJSC “Hibinskaya TK”	50.00%	20 000	20 000
Other		10	160
Total investments		**20 010**	**111 849**

On December 2009 Group sold shares in OJSC “RusHydro” and part of shares in OJSC “Inter RAO UES” via open trade for the total amount of RUB 52 247 thousand and RUB 43 749 thousand respectively.

As the result of this transaction, previously recognised impairment in respect of these shares was reversed for the total amount of RUB 80 957 thousand. The financial result from this transaction totalled to RUB 18 128 thousand was reflected as a loss from disposal of investments (see Note 22).

The residual part of shares in OJSC “Inter RAO UES” was sold in February 2010 for the total amount of RUB 456 477 thousand (see Note 29). These shares were reclassified to the short-term investments as at 31 December 2009 (see Note 12)

On 1 May 2008 OJSC “North-West TPP” was reorganized and merged with OJSC “Inter RAO UES” by converting shares of OJSC “North-West TPP” in to additional ordinary shares of OJSC “Inter RAO UES” and after that OJSC “North-West TPP” ceased to exist. Investment in OJSC “Inter RAO UES” in the Group’s consolidated balance sheet as at 31 December 2008 was classified as available-for-sale

investment. Investment in OJSC "Inter RAO UES" is traded in active markets and it's fair value was determined by reference to the current market value at the close of business on 31 December 2008.

Also on 1 July 2008 the Company completed the merger with OJSC "TGC -1 Holding" an entity which was spun-off from RAO UES as a new and separate company (see note 1). As a result of the merger with TGC-1 Holding the Company received an investment in the shares of OJSC "RusHydro" classified as available-for-sale investment. Shares in OJSC "RusHydro" are traded in active markets and their fair value was determined by reference to the current market value at the close of business on 31 December 2008.

Note 9. Income Tax

	Year ended 31 December 2009	Year ended 31 December 2008
Current income tax charge	(579 588)	(157 804)
Deferred income tax charge	(1 701 813)	(443 020)
Effect of the change in the tax rate	-	479 218
Income tax charge	**(2 281 401)**	**(121 606)**

During the year ended 31 December 2008 the Group was subject to a 24% income tax rate on taxable profits. An income tax rate of 20% has been enacted in November 2008 which becomes effective starting from 1 January 2009. As this tax rate was enacted by 31 December 2008, the effect of the change on closing deferred tax liabilities (assets) amounted to RUB 479 218 thousand has been recognized in these financial statements.

Most companies of the Group were subject to tax rates of 20% on taxable profits in the Russian Federation for 2009 and 2008. Deferred tax asset/liabilities are measured at the rate of 20% as at 31 December 2009 and 31 December 2008.

Reconciliation between the expected and the actual taxation charge is provided below:

	Year ended 31 December 2009	Year ended 31 December 2008
Profit before tax	10 631 677	1 137 698
Theoretical tax charge at the statutory tax rate of 20%	(2 126 335)	(273 048)
Tax effects of items which are non-deductible for income tax purposes	(155 066)	(327 776)
Effect of the change in the tax rate	-	479 218
Income tax charge	**(2 281 401)**	**(121 606)**

Deferred tax assets and liabilities

Differences between IFRS and Russian statutory taxation regulations give rise to certain temporary differences between the carrying value of certain assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets and liabilities are measured at the rate of 20% as at 31 December 2009 and as at 31 December 2008 which is expected to be applied to the period when the assets are realised and liabilities are settled.

In the context of the Group's current structure, tax losses and current tax assets of different consolidated entities may not be offset against current tax liabilities and taxable profits of other consolidated entities and, accordingly, taxes may accrue even where there is a consolidated tax loss. Therefore, deferred tax assets and liabilities are offset only when they relate to the same taxable entity.

Deferred tax liabilities:	31 December 2009	Recognised in profit or losses	Recognised in other comprehensive income	31 December 2008
Property, plant and equipment	(4 598 405)	(1 797 356)	-	(2 801 049)
Investments	(39 344)	50 100	(40 363)	(49 081)
Accounts receivable	(168 065)	31 537	-	(199 602)
Accounts payable and accrued liabilities	172 798	(17 555)	-	190 353
Tax loss carried forward	1 727	(90 776)	-	92 503
Long-term loans	(44 313)	(44 313)	-	-
Other	14 405	(3 531)	-	17 936
Total deferred tax liability	**(4 661 287)**	**(1 871 984)**	**(40 363)**	**(2 748 940)**

Deferred tax liabilities:	31 December 2008	Recognised in profit or losses	Recognised in other comprehensive income	Effect of the change in income tax rate	31 December 2007
Property, plant and equipment	(2 801 049)	(534 817)		560 209	(2 826 441)
Investments	(49 081)	(1 267)	(29 545)	9 816	(28 085)
Accounts receivable	(199 602)	(121 386)	-	39 921	(118 137)
Accounts payable and accrued liabilities	190 353	74 055	-	(38 071)	154 369
Tax loss carried forward	92 503	(37 669)	-	(18 501)	148 673
Other	17 936	(44 390)	-	(3 587)	65 913
Total deferred tax liability	**(2 748 940)**	**(665 474)**	**(29 545)**	**549 787**	**(2 603 708)**

Deferred tax assets	31 December 2009	Recognised in profit or losses	31 December 2008
Property, plant and equipment	133 621	143 719	(10 098)
Tax loss carried forward	310 808	12 064	298 744
Accounts receivable	62 553	14 996	47 557
Accounts payable and accrued liabilities	13 832	903	12 929
Other	2 204	(1 511)	3 715
Total deferred tax assets	**523 018**	**170 171**	**352 847**

Deferred tax assets	31 December 2008	Recognised in profit or losses t	Effect of the change in income tax rate	31 December 2007
Property, plant and equipment	(10 098)	4 595	2019	(16712)
Tax loss carried forward	298 744	136 346	(59 749)	222147
Accounts receivable	47 557	52 853	(9 511)	4215
Accounts payable and accrued liabilities	12 929	29 084	(2 586)	(13 569)
Other	3 715	(424)	(742)	4 881
Total deferred tax assets	**352 847**	**222 454**	**(70 569)**	**200 962**

The tax charge related to components of other comprehensive income is as follows:

	Year ended 31 December 2009			Year ended 31 December 2008		
	Before tax	**Tax charge**	**After tax**	**Before tax**	**Tax charge**	**After tax**
Fair value of available-for-sale investments	201 815	(40 363)	161 452	123 105	(29 545)	93 560
Foreign currency translation differences, net	(64 281)	-	(64 281)	(164 373)	-	(164 373)
Other comprehensive income	**137 534**	**(40 363)**	**97 171**	**(41 268)**	**(29 545)**	**(70 813)**

Note 10. Other Non-Current Assets

	31 December 2009	31 December 2008
Long-term receivables (interest free)	472 203	387 255
Promissory notes	10 083	19 591
Total financial receivables	**482 286**	**406 846**
VAT in prepayments on capital construction	155 555	934 752
Total other non-current assets	**637 841**	**1 341 598**

Long-term receivables and loans issued are recorded at amortised cost. Loss on discounting of long-term receivables is included in finance cost. The amount of the discount as at 31 December 2009 is RUB 22 072 thousand (31 December 2008: RUB 113 914 thousand).

Note 11. Cash and Cash Equivalents

	31 December 2009	31 December 2008
Promissory notes with maturing less three month	61 400	-
Short-term deposits in RUB (effective interest rate: 7,25%)	-	796 000
Cash in bank and in hand in RUB (effective interest rate: 0%)	275 417	963 572
Foreign currency accounts (primarily EUR)	242 757	299 046
Total cash and cash equivalents	**579 574**	**2 058 618**

Note 12. Short-term Investments

	Currency	31 December 2009	31 December 2008
Equity shares in OJSC “Inter RAO UES”	RUB	445 881	-
KIT Finance (promissory notes)	RUB	95 985	-
CJSC “Energoinvest” (loan issued)	RUB	45 273	-
Bank Rossiya (deposit)	Euro	-	248 648
Gazenergoprombank (promissory notes)	RUB	7 095	66 762
OJSC “Baltinvestbank” (promissory notes)	RUB	1 461	-
Total short-term investments		**595 695**	**315 410**

As at 31 December 2009 the part of shares in OJSC “Inter RAO UES” was reclassified to short-term investments (see Note 8). As the result of change in fair value previously recognised impairment in respect of these shares was reversed for the total amount of RUB 185 544 thousand (see Note 22), the exceeds of fair value and total impairment reversed for the total amount of 201 815 RUB was reflected in the other comprehensive income for the year ended 31 December 2009.

Note 13. Accounts Receivable and Prepayments

	31 December 2009	31 December 2008
Trade receivables, net of provision for impairment of RUB 374 676 thousand (31 December 2008: RUB 248 840 thousand)	5 371 666	4 294 528
Other receivables, net of provision for impairment of RUB 112 790 thousand (31 December 2008: RUB 40 200 thousand)	39 792	671 494
Total financial receivables	**5 411 458**	**4 966 022**
Value-added tax receivables	3 656 693	2 612 928
Advances to suppliers	939 330	664 483
Other taxes receivable	16 358	7 337
Total accounts receivable and prepayments	**10 023 839**	**8 250 770**

Note 14. Inventories

	31 December 2009	31 December 2008
Fuel supplies	1 360 013	1 664 511
Spare parts	415 575	489 269
Raw materials and other supplies	367 622	432 673
Total inventories	**2 143 210**	**2 586 453**

Raw materials and other supplies are recorded net of provision for impairment in the amount of RUB 6 367 thousand (31 December 2008: RUB 17 319 thousand).

Note 15. Equity

Share capital

	31 December 2009	31 December 2008
Number of ordinary shares authorised, issued and fully paid (thousands)	3 854 341 417	3 854 341 417
Nominal value (in RUB)	0.01	0.01

All issued ordinary shares are fully paid. The following movements of share capital of the Company took place for the year ended 31 December 2008 and 2009:

- In April 2008 the Company made an additional issue of 3 381 666 366 ordinary shares for the total amount of RUB 33 816 thousand. This additional issue of shares and further shares of the Company which were purchased from non-controlling shareholders for RUB 20 558 thousand (674 041 000 shares at a price of RUB 0.0305 per share) were used for the purpose of merger of OJSC "TGC-1 Holding" into OJSC TGC -1 by converting ordinary and preference shares of OJSC "TGC-1 Holding" into ordinary shares of OJSC TGC-1 in accordance with the following converting ratio:
  - 0.0261552883800093 ordinary share of OJSC “TGC-1 Holding” were converted into one ordinary share of the Company with par value of RUB 0.01 each;
  - 0.0285600440926069 preference share of OJSC “TGC-1 Holding” were converted into one ordinary share of the Company with par value of RUB 0.01 each.
- As a result of merger OJSC "TGC-1 Holding" the Company received the assets in the amount RUB 104 759 thousand. The difference between the assets received as result of acquisition and share capital used for purpose of merger was posted to share premium.
- After this transaction, the share capital of the Group as at 31 December 2008 totalled at RUB 38 543 414 thousand, being 3 854 341 416 571 ordinary shares with a par value of RUB 0.01 each.

Dividends

In accordance with the Russian legislation, the Group distributes profits as dividends or transfers them to reserves (fund accounts) on the basis of financial statements prepared in accordance with Russian Accounting Rules. The statutory accounting reports of the Company are the basis for profit distribution and other appropriations. Russian legislation identifies the basis of distribution as the net profit. For 2009, the current year statutory net profit for the Company, as reported in the published annual statutory reporting forms, was RUB 3 366 287 thousand (2008: RUB 231 321 thousand) and the closing balance of the accumulated losses including the current year statutory net profit totalled RUB 11 813 204 thousand (31 December 2008: RUB 15 500 197 thousand). However, this legislation and other statutory laws and regulations are open to legal interpretation and, accordingly, management believes at present it would not be appropriate to disclose an amount for distributable reserves in these consolidated financial statements.

At the General Shareholders Meeting held on 17 June 2009, the decision was made not to pay 2008 annual dividends.

Note 16. Long-term Borrowings

	Currency	Effective interest rate	Maturity	31 December 2009	31 December 2008
Long-term bonds	RUB	16.99%	2014	5 000 000	-
Long-term bonds	RUB	7.75%	2014	921 939	1 143 503
NORDIC investment bank	Euro	EURIBOR + 3%	2014	901 142	1 051 965
European Bank for Reconstruction and Development	Euro	EURIBOR + 2.75%	2010	173 551	497 294
Nordic environment finance corporation	Euro	EURIBOR + 2.00%	2015	119 319	124 324
OJSC “TransCreditBank”	RUB	12.4%	2012	2 700 000	-
				9 815 951	**2 817 086**
Less: current portion					
NORDIC investment bank				(200 254)	(191 266)
European Bank for Reconstruction and Development				(173 551)	(331 529)
Nordic environment finance corporation				(21 695)	(10 361)
Total long-term borrowings				**9 420 451**	**2 283 930**

On 7 July 2009 Group issued 5 000 000 bonds at a nominal value of for RUB 1 000 per bond, with coupon rate of 16.99%, maturing in 2014 and bond a put date in 2011.

On March 2007 the Group issued 4 000 000 bonds at a nominal value of RUB 1 000 per bond, with the coupon rate of 7.75%, maturing in 2014. As a result of the offer Group did not redeemed any issued bonds, therefore the total amount of bonds outstanding as at 31 December 2009 was equal to 1 143 503 with coupon rate of 8.5% (see Note 29). The fair value of these bonds (including the current portion) was estimated by management on the basis of future contracted cash flows and marketable interest rates on similar instruments applicable to the Group as at 31 December 2009. The amount of the discount which was reflected in the profit or losses for the year ended 31 December 2009 was RUB 221 564 thousand.

Compliance with covenants

In accordance with the long-term borrowings facility agreements, the Group is required to comply with certain financial and non-financial covenants. The most significant and most important covenants are:

- to maintain certain ratios: EBITDA to Finance Charges, total debt to equity and Current Ratio;
- to maintain certain liquidity and debt-to-assets ratio.

In case of breach of these covenants the schedule of repayment can be changed by the respective lender, up to immediate repayment. Management does not believe that the Group is in danger of breaching the covenants imposed.

The following assets were pledged as collateral under the long-term borrowings:

	31 December 2009	31 December 2008
Property, plant and equipment (net book value)	1 376 522	309 029
Total	**1 376 522**	**309 029**

The increase in net book value resulted in course of modernisation of pledged property plant and equipment for the total amount of RUB 1 099 145 thousand.

Note 17. Post-Employment Benefits

The Group operates defined benefit and defined contribution pension plans. In respect of some of these plans the Group has a contract with a pension fund "Non-state pension fund of electrical energy industry" ("NPFE"), which is a separate legal entity; the other plans are operated by the Group without engaging pension funds. Defined contribution plans are considered immaterial for disclosure.

The defined benefit pension plan through NPFE provides for monthly pension benefit paid upon retirement. Annual contributions are made by the Group to the solidarity account in the non-state pension fund. Amount of the contribution is defined by the Group's budget and is considered to be enough at least to finance running pension benefits. No part of this contribution is recognised as plan asset as far as the Group can recall this money back and the plan is considered as unfunded thereat. Pension benefits are paid from the solidarity account on 'pay-as-go' basis.

Additionally to the NPFE pension plan, the Group provides financial support, of a defined benefit nature, to its old-age pensioners, who have completed certain service for the Group, and other post-employment benefits such as lump-sum payments upon retirement, lump-sum material aid, etc.

The tables below provide information about the benefit obligations, plan assets and actuarial estimations used for the years ended 31 December 2009 and 31 December 2008.

Amounts recognised in the consolidated balance sheet:

	31 December 2009	31 December 2008
Defined benefit obligations	1 043 001	954 885
Unrecognised net actuarial losses	(114 770)	(95 301)
Unrecognised past service cost	(155 437)	(173 318)
Net liability on the balance sheet	**772 794**	**686 266**

Amounts recognised in the consolidated statement of profit or losses:

	Year ended 31 December 2009	Year ended 31 December 2008
Current service cost	47 729	53 850
Interest cost	84 533	69 450
Past service cost	17 881	17 881
Actuarial losses on obligation	6 872	(2 012)
Termination benefits	31 285	-
Total	**188 300**	**139 169**

Changes in the present value of the Group's defined benefit obligations are as follows:

	Year ended 31 December 2009	Year ended 31 December 2008
Benefit obligations as at the beginning of the period	954 886	1 016 212
Current service cost	47 729	53 850
Interest cost	84 533	69 450
Past service cost	-	39 622
Benefits paid	(70 488)	(56 924)
Actuarial (gains) / losses	26 341	(167 324)
Benefit obligations as at the end of the period	**1 043 001**	**954 886**

The principal actuarial estimations are as follows:

	31 December 2009	31 December 2008
Discount rate for benefits at accumulation phase	9.00%	9.00%
Future salary increase	9.00%	8.00%
Future inflation rate	6.50%	7.00%

Note 18. Short-Term Borrowings and Current Portion of Long-Term Borrowings

Name of lender	Currency	Effective interest rate	31 December 2009	31 December 2008
OJSC "VTB North-West"	RUB	4-16%	500 000	1 500 000
OJSC "Alfabank"	RUB	17.5%	1 230 000	-
CJSC "Gazenergoprombank"	RUB	14.5%	1 200 000	-
JSC "AB Russia"	RUB	5-18%	250 000	400 000
CJSC "Unicreditbank"	RUB	12.15%	1 300 000	-
OJSC "Baltinvestbank"	RUB	12%	742 250	-
Nordic environment finance corporation	Euro	EURIBOR+2.00%	21 695	10 361
European Bank for Reconstruction and Development	Euro	EURIBOR+2.75%	173 551	331 529
NORDIC investment bank	Euro	EURIBOR+3%	200 254	191 266
Total short-Term Borrowings			**5 617 750**	**2 433 156**

Note 19. Accounts Payable and Accrued Liabilities

	31 December 2009	31 December 2008
Trade accounts payable	2 792 198	2 240 841
Accounts payable for capital construction	5 416 898	6 208 612
Accrued liabilities and other payables	434 731	173 259
Interest accrued on loans	77 365	74 644
Total financial payables	**8 721 192**	**8 697 356**
Advances from customers	882 848	1 558 442
Employee benefits	151 427	126 415
Total accounts payable and accrued liabilities	**9 755 467**	**10 382 213**

Note 20. Other Taxes Payable

	31 December 2009	31 December 2008
Property tax	157 914	138 319
Water usage tax	67 419	66 950
Employee taxes	1 367	34 052
VAT provision, related penalties and late payment interest	347 947	209 916
Other taxes	77 712	20 761
Total taxes Payable	**652 359**	**469 998**

Note 21. Tax Provision

Following the results of a tax inspection of the Company for the period from 25 March 2005 to 31 December 2006 finalised in March 2009, management recorded a provision in respect of additional taxes, penalties and late payment interest as presented below:

	Income tax payable	Taxes other than on income, and penalties	Total
Carrying value at 31 December 2008	**-**	**-**	**-**
Charged to profit or losses	120 136	209 916	330 052
Carrying value at 31 December 2008	**120 136**	**209 916**	**330 052**
Charged to profit or losses	-	-	-
Carrying value at 31 December 2009	**120 136**	**209 916**	**330 052**

Note 22. Operating Expenses, net

	Year ended 31 December 2009	Year ended 31 December 2008
Fuel	15 692 676	15 546 084
Employee benefits	5 149 671	4 818 686
Electricity and heat purchases	4 740 156	2 844 902
Depreciation	2 790 690	2 750 427
Repairs and maintenance	1 783 650	1 231 884
Water usage expenses	1 708 434	1 681 541
Heat distribution	1 191 920	1 134 582
Taxes other than income tax	1 031 958	929 145
Dispatcher’s fees	603 983	460 161
Other materials	375 481	336 746
Third-party services, manufacturing	340 206	73 242
Security services	336 575	308 958
Consulting, legal and audit services	332 098	228 142
Lease expenses	326 095	254 844
Insurance cost	215 890	188 936
Provision for impairment of accounts receivable	205 262	203 880
Transportation services	197 178	204 926
Penalties and fines	192 561	63 219
Commission fees	150 842	109 658
Loss on disposal of property, plant end equipment	129 729	56 800
Telecommunication services	119 153	102 584
Loss on disposal of non-core assets	91 457	10 418
Loss from sale of investments	18 128	-
Gain from property plant and equipment received as compensation	(1 376 517)	-
Impairment of available-for-sale investments	(266 501)	341 133
Provision for inventory obsolescence	(10 952)	(23 027)
Provision charge for taxes other than on income and penalties	-	209 916
Other operating income	(405 986)	(713 251)
Other operating expenses	718 580	382 366
Total operating expenses, net	**36 382 417**	**33 736 902**

In 2009 the Group concluded a compensation agreement with one of municipal authority in respect of recovering damage to TGC-1 for heating networks broken during construction works of municipal roads. Therefore in 2009 the Group obtained and recognised property plant and equipment received and respective gain in profit or losses for the total amount of RUB 1 376 517 thousand (see Note 6).

Note 23. Finance income, net

	Year ended 31 December 2009	Year ended 31 December 2008
Interest expense	(223 455)	(280 194)
Interest income	275 285	436 252
Effect of discounting	243 636	113 914
Finance income, net	**295 466**	**269 972**

Note 24. Earnings per Share

	Year ended 31 December 2009	Year ended 31 December 2008
Profit attributable to the shareholders of TGC-1	8 414 557	1 215 783
Weighted average number of ordinary shares issued (thousands)	3 854 341 417	3 852 659 823
Earnings per ordinary share attributable to the shareholders of TGC-1 - basic and diluted – in Russian Roubles	0.0022	0.0003

Note 25. Commitments

Sales commitments

The Group sells electricity in two wholesale market sectors: free trading sector and regulated trading sector. The tariffs for the electricity sold in the regulated trading sector (including the sector of deviations) are set by the Federal Service on Tariffs.

As at 31 December 2009, the Group entered into a number of annual electricity sales agreements with CJSC Centre for Financial Settlements, OJSC "Inter RAO UES", retail companies and large industrial customers. The total amount of electricity sales commitments (net of VAT) was RUB 7 191 093 thousand (31 December 2008: RUB 9 410 683 thousand).

Fuel commitments

The Group concluded a number of contracts for fuel supply. Main supplier of gas is CJSC Peterburgregiongaz (subsidiary of Gazprom Group, controlled by the State) and the main supplier of coal is OJSC Plant Polymer. The prices for natural gas and coal stipulated in the contracts are mainly determined on the basis of tariffs established by the FST, published inflation rates and current market prices.

Contractual capital commitments

As at 31 December 2009, the Group had outstanding contractual commitments in respect of construction of property, plant and equipment in the amount of RUB 16 408 245 thousand (31 December 2008: RUB 48 810 469 thousand).

Note 26. Contingencies

Political environment

The operations and earnings of the Group continue, from time to time and in varying degrees, to be affected by political, legislative, fiscal and regulatory developments, including those related to environmental protection, in Russia.

Insurance

The Group holds limited insurance policies in relation to its assets, operations, public liability or other insurable risks. Accordingly, the Group is exposed to those risks for which it does not have insurance.

Legal proceedings

The Group is a party to certain legal proceedings arising in the ordinary course of business. In the opinion of management, there are no current legal proceedings or other claims outstanding and not provided which, upon final disposition, will have a material adverse effect on the financial position of the Group.

Tax legislation

Russian tax, currency and customs legislation is subject to varying interpretations, and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Group may be challenged by the relevant regional and federal authorities. The Russian tax authorities may be taking a more assertive position in their interpretation of the legislation and assessments, and it is possible that transactions and activities that have not been challenged in the past may be challenged. In October 2006, the Supreme Arbitration Court issued guidance to lower courts on reviewing tax cases providing a systemic roadmap for anti-avoidance claims, and it is possible that this will significantly increase the level and frequency of tax authorities' scrutiny. As a result, significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods.

In 2008 the tax provision was reflected in profit and loss of RUB 330 052 thousand related to pricing and documentation of certain transactions (see Note 21).

As at 31 December 2009 and 31 December 2008 the Group estimates that it has total potential obligations from exposure to possible tax risks related to pricing and documentation of certain transactions, of RUB 871 466 thousand.

In addition, tax and other legislation do not address specifically all the aspects of the Group's reorganization related to reforming of the electric utilities industry. As such there may be tax and legal challenges to the various interpretations, transactions and resolutions that were a part of the reorganisation and reform process.

Environmental matters

The enforcement of environmental regulation in the Russian Federation is evolving and the enforcement posture of government authorities is continually being reconsidered. The Group periodically evaluates its obligations under environmental regulations.

Potential liabilities might arise as a result of changes in legislation and regulation or civil litigation. The impact of these potential changes cannot be estimated, but could be material. In the current enforcement climate under existing legislation, management believes that there are no significant liabilities for environmental damage.

Compliance with covenants

The Group is subject to certain covenants related to its long-term borrowings (see Note 16). Non-compliance with such covenants may result in negative consequences for the Group including growth in the cost of borrowings and declaration of default. The Group's management believes that the Group is in compliance with covenants.

Note 27. Financial Risk Management

Financial risks

The Group's activities expose it to a variety of financial risks including market risk (currency risk, interest rate risk and other price risk), credit risk and liquidity risk. The Group does not have a formal risk policy to hedge its financial exposures.

Credit risk

Financial assets, which potentially subject the Group to concentrations of credit risk, consist principally of trade receivables. Although collection of receivables could be influenced by economic factors, management believes that there is no significant risk of loss to the Group beyond the provision for impairment of receivables already recorded.

Cash transactions are conducted through high-credit-quality financial institutions. Cash is placed in financial institutions, which are considered at time of deposit to have minimal risk of default.

The table below shows the rating and balances with major banks at the balance sheet dates:

	Rating agency	National scale ratings	Note	Long-term RDE* in foreign currency	31 December 2009	31 December 2008
Cash at bank						
SEB Bank	Fitch	AAA (rus)		BBB+	35 643	332 367
Bank St.Petersburg	Moody's	-		Ba3	-	1 953
Sberbank	Fitch	BBB		BBB	23 499	15 250
NB Trust	Moody's/Fitch	Ba3		B-	60 733	1 531
Alfabank	Fitch	A+ (rus)		BB-	4 137	87 862
VTB	Fitch	AAA (rus)		BBB	2 000	31 695
Bank Rossiya	Fitch	BB- (rus)		B-	4	175 090
Gazenergoprombank	Moody's	Aa3		Ba3/NP	384 400	1 364 475
OJSC Baltinvestbank	Moody's	-		Baa2	9	-
VTB	Fitch	AAA(rus)		BBB	39 770	-
Baltiyskiy Bank	Moody's	-		Baa3	9 887	-
CJSC UnicreditBank	Fitch	-		BBB+	32	-
OJSC Sobinbank	Moody's	-		Baa2	18 612	-
Other	-	-			848	48 395
Total cash at bank			**11**		**579 574**	**2 058 618**
Bank deposits						
Bank Rossiya	Fitch	BB-(rus)		B-	-	248 648
Total bank deposits			**12**		**-**	**248 648**

** Rating of the default of the emitter*

Promissory notes						
KITFinance	Moody's	-		B2	95 985	-
Gazenergoprombank	Moody's	-		Aa3	7 095	66 762
OJSC Baltinvestbank	Moody's	-		Baa3	1 461	-
Total promissory notes			**12**		**104 541**	**66 762**

At the balance sheet date there were no significant concentrations of credit risk. The maximum exposure to credit risk at the reporting date without taking account of any collateral held is as follows:

	31 December 2009	31 December 2008
Cash and cash equivalents (Note 11)	579 574	2 058 618
Short - term investments (Note 12)	595 695	315 410
Total short-term financial receivables (Note 13)	5 411 458	4 966 022
Total long-term financial receivables (Note 10)	482 286	406 846
Total	**7 069 013**	**7 746 896**

Total financial receivables by type of customers are presented in the table below:

	31 December 2009	31 December 2008
Domestic customers	3 647 095	3 297 219
Wholesale customers	1 032 501	782 288
Free market	622 325	837 400
Export customers	109 537	49 115
Total	**5 411 458**	**4 966 022**

Total financial receivables on a contract basis as at the reporting date are presented in the table below:

	Fully performing	Past due but not impaired	Impaired
Total financial receivables as at 31 December 2009	4 005 065	1 406 393	487 466
Total financial receivables as at 31 December 2008	3 980 814	985 208	289 040

Fully performing trade receivables relate to a number of independent customers for whom there is no recent history of default. The majority of performing trade receivables is represented by large number of individually insignificant end-user customers, therefore the credit risk is widely spread.

Past due but not impaired financial receivables have the following ageing structure:

	31 December 2009	31 December 2008
Up to 45 days	579 487	419 128
From 45 to 90 days	229 998	109 292
More than 90 days	596 908	456 788
Total	**1 406 393**	**985 208**

Movements in impairment provision for financial receivables are as follows:

	Year ended 31 December 2009	Year ended 31 December 2008
Provision for impairment as at 1 January	**289 040**	**85 160**
Impairment loss recognised during the period	198 426	205 302
Consumed	-	(1 422)
Provision for impairment as at 31 December	**487 466**	**289 040**
Account receivable directly written-off as an expenses	6 836	

Currency risk

The Group takes on exposure to effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. At 31 December 2009, the Group had the following currency positions:

	RUB	USD	EUR	Total
Monetary financial assets				
Cash in bank	336 817	20	242 737	579 574
Available-for-sale investments	595 695	-	-	595 695
Total short-term financial receivables	5 301 411	510	109 537	5 411 458
Total long-term financial receivables	482 286	-	-	482 286
Total financial assets	**6 716 209**	**530**	**352 274**	**7 069 013**
Monetary financial liabilities				
Long-term borrowings	(8 621 939)	-	(798 512)	(9 420 451)
Short-term borrowings	(5 222 250)	-	(395 500)	(5 617 750)
Total other financial liabilities	(8 721 192)	-	-	(8 721 192)
Total financial liabilities	**(22 565 381)**	**-**	**(1 194 012)**	**(23 759 393)**
Net balance sheet position	**(15 849 172)**	**530**	**(841 738)**	**(16 690 380)**

As at 31 December 2008, the Group had the following currency positions:

	RUB	USD	EUR	Total
Monetary financial assets				
Cash in bank	1 759 572	7 515	291 531	2 058 618
Available-for-sale investments	66 762	-	248 648	315 410
Total short-term financial receivables	4 871 057	566	94 399	4 966 022
Total long-term financial receivables	406 846	-	-	406 846
Total financial assets	**7 104 237**	**8 081**	**634 578**	**7 746 896**
Monetary financial liabilities				
Long-term borrowings	(1 143 503)	-	(1 140 427)	(2 283 930)
Short-term borrowings	(1 900 000)	-	(533 156)	(2 433 156)
Total other financial liabilities	(8 696 791)	-	(565)	(8 697 356)
Total financial liabilities	**(11 740 294)**	**-**	**(1 674 148)**	**(13 414 442)**
Net balance sheet position	**(4 636 057)**	**8 081**	**(1 039 570)**	**(5 667 546)**

Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's liquidity risk management includes maintaining sufficient cash to fund operations and the investment programme and the availability of funding from an adequate amount of committed credit facilities.

The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet to the contractual maturity date, based on the contractual undiscounted amounts, including future interest payments.

As at 31 December 2009

	Carrying amount	Contractual cash flows	Less than 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 5 years	Total
Bonds including future principal	5 921 939	6 143 503	-	-	-	6 143 503	6 143 503
Bank loans including future principal	9 116 262	9 116 262	350 126	1 366 636	3 900 988	3 498 512	9 116 262
Total other financial liabilities	8 721 192	8 721 192	6 285 440	671 356	1 764 396	-	8 721 192
Total financial liabilities	**23 759 393**	**23 980 957**	**6 635 566**	**2 037 992**	**5 665 384**	**9 642 015**	**23 980 957**

As at 31 December 2008

	Carrying amount	Contractual cash flows	Less than 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 5 years	Total
Bonds including future principal	1 143 503	1 143 503	-	-	-	1 143 503	1 143 503
Bank loans including future principal	3 573 583	3 573 583	-	-	2 433 156	1 140 427	3 573 583
Total other financial liabilities	8 697 356	8 697 356	6 569 359	380 982	1 747 015	-	8 697 356
Total financial liabilities	**13 414 442**	**13 414 442**	**6 569 359**	**380 982**	**4 180 171**	**2 283 930**	**13 414 442**

As at 31 December 2009, the contractual cash flows for financial liabilities were translated using the following rates: CB RF official exchange rates as at 31 December 2009 of EUR 1 = RUB 43.3883 (31 December 2008: EUR 1 = RUB 41.4411) and future interest was calculated using EURIBOR effective rate as at 31 December 2009 of 1.248 % (31 December 2008: 3.202%).

Market risk

The Group exports part of produced electricity to Finland and Norway and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the Euro. Foreign exchange risk arises on foreign currency denominated borrowings (see 16 and Note 18). The Group does not have formal arrangements to mitigate this risk.

At 31 December 2009, if the Russian Rouble had weakened/strengthened on 10% in 2009 (2008: 10%) against the EUR with all other variables held constant, the post-tax profit for the year would have been RUB 84 174 thousand (2008: RUB 103 957 thousand) lower/higher. Since the Group does not hold any financial instruments revalued through equity, the effect of change of exchange rate on equity would be the same as on post-tax profit.

Interest rate risk

The Group's operating profits and cash flows from operating activity are largely independent of changes in market interest rates. The Group's interest rate risk arises from borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. Borrowings issued at fixed rates expose the Group to fair value interest rate risk.

At the reporting date the interest rate profile of the Group's interest-bearing financial instruments was:

	Carrying amount	
	31 December 2009	**31 December 2008**
Fixed rate instruments		
Long-term loans and borrowings	8 621 939	1 143 503
Short-term loans and borrowings	5 222 250	1 900 000
Variable rate instruments		
Long-term loans and borrowings	798 512	1 140 427
Short-term loans and borrowings	395 500	533 156
Total financial instruments	**15 038 201**	**4 717 086**

The Group analyses its interest rate exposure on a regular basis. Various scenarios are simulated taking into consideration refinancing, renewal of existing positions and alternative financing. Based on these scenarios, the Group calculates the impact on profit and loss of a defined interest rate shift.

A general increase/decrease of one percent in interest rates would have increased/decreased the Group's profit after income tax for the year ended 31 December 2009 by approximately RUB 9 552 thousand (for the year ended 31 December 2008: RUB 13 388 thousand). The effect on equity (retained earnings) would be the same as on post-tax profit.

Fair value sensitivity analysis for fixed rate instruments

In 2009 the Group did not hold any fixed rate financial assets and liabilities at fair value through profit or loss, and the Group did not designate derivatives as hedging instruments under a fair value hedge accounting model. Therefore a change in interest rate at the reporting date would not affect profit or loss.

Fair values

The fair value of long-term bonds (including the current portion) as estimated by management on the basis of future contracted cash flows and marketable interest rates on similar instruments applicable to the Group is less than its carrying value in the amount of RUB 221 564 thousand as at 31 December 2009, as at 31 December 2008 was equalled to it's carrying value (see Note 16).

Management believes that the fair values of the Group's other financial assets and liabilities approximate their carrying values as of both year ends and determines the appropriate level of the financial assets and liabilities using a three – level hierarchy on the basis of the lowest level input that is significant to the fair value measurements. The fair value investment through profit and losses (see Note 12) is classified as Level 1.

Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns to equity holders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to equity holders, return capital to equity holders or issue new shares.

The Group monitors capital on the basis of the gearing ratio to be consistent with other companies in the industry. This ratio is calculated as net debt divided by total equity. Net debt is calculated as total borrowings (including borrowings and trade and other payables, as shown in the consolidated balance sheet) less cash and cash equivalents. Total capital is calculated as equity (net of non-controlling interest), as shown in the consolidated balance sheet, plus net debt. Management of capital is linked to maintaining certain financial ratios to comply with covenants imposed by the banks (see Note 16).

During 2009, the Group's strategy, which was unchanged from 2008, was to maintain a gearing ratio between net debt and equity not higher than 0.6. The gearing ratios at 31 December 2009 and 31 December 2008 were as follows:

	31 December 2009	31 December 2008
Total borrowings	15 038 201	4 717 086
Trade and other liabilities	9 755 467	10 382 213
Less: cash and cash equivalents	(579 574)	(2 058 618)
Net debt	24 214 094	13 040 681
Total equity	68 460 812	59 951 735
Total capital	**92 674 906**	**72 992 416**
Debt % in Capital Structure	26.13%	17.87%
Equity % in Capital Structure	73.87%	82.13%
Gearing ratio	0.35	0.22

Note 28. Segment information

The Group generates its revenues from the generation of electricity and heat in one geographical segment - Russian Federation (see Note 4). The Group major customers are the regional electricity wholesalers. Management does not believe that the Group is dependent on any particular customer.

The Management Board of the Company controls and allocates economic resources of the Group between segments and evaluates segment's operating efficiency. Primary activity of the Group is production of electric and heat power and capacity. The technology of electricity and heat production does not allow segregation of electricity and heat segments. Due to significant decentralization and distances between Company branches, the Group identifies seven primary reporting segments: TPP of Nevsky branch, HPS of Nevsky branch, Heating Network of Nevsky branch, TPP of Kolsky branch, HPS of Kolsky branch, Karelsky branch (HPS) and Murmanskaya TPP. All reporting segments are located on the territory of Russian Federation. In the process of valuation of segments results and allocation of economic resources of the Group the Management Board uses financial information provided below prepared in accordance with Russian Accounting Standards (RAS). The differences between the above-mentioned financial indicators analyzed by the Management Board and IFRS financial information are caused by different approaches applied in IFRS and RAS. The main difference is the estimation of the value of property, plant and equipment. The Group does not have material amount of inter-segment revenue.

Year ended 31 December 2009	**TPP of Nevsky branch**	**HPS of Nevsky branch**	**Heating Network of Nevsky branch**	**Kolsky branch (TPP)**	**Kolsky branch (HPS)**	**Karelsky branch (HPS)**	**Murmanskaya TPP**	**Total operating segments**
Revenue:	22 457 324	2 716 976	3 523 069	1 701 099	4 368 822	3 604 551	2 978 155	**41 349 996**
including export	-	678 894	-	-	1 008 220	-	-	**1 687 114**
Depreciation of property, plant, equipment	1 178 124	134 815	1 071 973	45 780	210 955	210 218	51 820	**2 903 685**
Reportable segment profit / (loss)	1 136 390	1 602 559	1 395 518	230 006	1 889 743	964 692	(62 069)	**7 156 839**
Other material non-cash items:								
Impairment loss reversal	4 294 989	-	1 859 991	-	-	-	-	**6 154 980**
Impairment loss recognised	-	-	-	-	-	-	(722 067)	**(722 067)**
Year ended 31 December 2008								
Revenue:	18 917 628	1 513 959	2 917 801	1 245 931	3 479 199	3 027 940	2 487 094	**33 589 552**
including export	-	243 478	-	-	749 708	-	-	**993 186**
Depreciation of property, plant, equipment	927 776	106 509	910 925	42 939	185 942	165 662	53 691	**2 393 444**
Reportable Segment profit / (loss)	(312 240)	654 556	187 279	95 878	1 599 112	782 234	(590 659)	**2 416 160**
Other material non-cash items:								
Impairment loss reversal	1 348 148	-	-	108 535	-	-	-	**1 456 683**
Impairment loss recognised	-	-	(277 234)	-		-	-	**(277 234)**

A reconciliation of management financial information prepared in accordance with based on RAR to IFRS figures is provided as follows:

	Year ended 31 December 2009	Year ended 31 December 2008
Segment operating profit	**7 156 839**	**2 416 160**
Adjustments, arisen from different accounting policy:		
Depreciation adjustment	212 149	(304 805)
Reversal / (charge) of property, plant and equipment impairment, net	5 432 913	1 179 449
Provision for impairment of trade and other receivables	(32 311)	(183 923)
Provision for taxes	209 916	(209 916)
Actuarial losses	(86 527)	(82 246)
Effect of discounting	243 636	113 914
Interest capitalised	456 878	-
Net change in fair value of available-for-sale investments	(201 815)	(123 105)
Income tax provision	120 136	-
Foreign currency translation differences	64 281	164 373
Additional issuance of shares	-	422 308
Other adjustments	26 006	118 271
Unallocated expenses:		
Employee benefits	(428 594)	(387 722)
Rent	(206 627)	(200 653)
Consulting, legal and audit services	(151 767)	(86 534)
Other corporate expenses	(2 119 155)	(1 533 500)
Profit for the year	**10 695 958**	**1 302 071**

Segment's assets are disclosed below:

	TPP of Nevsky branch	HPS of Nevsky branch	Heating Network of Nevsky branch	Kolsky branch (TPP)	Kolsky branch (HPS)	Karelsky branch (HPS)	Murmans-kaya TPP	Total operating segments
31 December 2009	50 232 751	6 691 912	14 014 385	1 481 451	8 353 935	4 539 003	2 311 293	87 624 730
31 December 2008	39 753 636	5 667 929	13 017 398	1 464 190	7 712 764	4 373 300	2 099 340	74 088 557

A reconciliation of management financial information prepared in accordance with based on RAR to IFRS figures is provided as follows:

	Year ended 31 December 2009	Year ended 31 December 2008
Total assets for reportable segment	**87 624 730**	**74 088 557**
Adjustments, arisen from different accounting policy:		
Property, plant and equipment adjustment	6 343 523	197 375
Impairment of trade and other receivables	(301 394)	(269 283)
Deferred tax assets	203 365	43 153
Discounting of accounts receivables and investments	(24 871)	(46 943)
Elimination of intersegment accounts receivable	(690 875)	(499 207)
Elimination of intersegment loans	(1 573 000)	(1 573 000)
Other adjustments	(63 483)	(129 295)
Unallocated assets	7 967 830	7 296 627
Total assets (IFRS)	**99 485 825**	**79 107 984**

The unallocated assets are the assets which can not be directly related to the certain operating segment and also out of the operating segment control for decision making. These assets include, shot – term and long - term trade receivables, cash in bank, deposits, inventories and fixed assets which are the subject to headquarter control.

Management of the Group does not review the information in respect of operating segment's liabilities in order to make a decision about allocation of resources, because of centralisation of significant part of payment transactions.

Note 29. Subsequent Events

New borrowings

In January 2010 the Group received the final tranche of the credit line in amount of RUB 1 300 000 thousand based on the agreement between TransCreditBank and the Group concluded in November 2009. In accordance with the agreement the bank opened the credit line for the Group until 19 November 2012 with annual interest rate of 12.4% and established limit at the total amount of RUB 4 000 000 thousand.

In February 2010 the Group concluded several loan agreements and received the loans from the following banks:

- Alfabank for the total amount of RUB 1 570 000 thousand with the maturity date of 16 February 2011 and annual interest rate of 12.15%.
- AB "Rossia" for the total amount of RUB 1 200 000 thousand with the maturity date of 31 August 2011 and 16 February 2013 and annual interest rates of 10.8%.
- Sberbank RF for the total amount of RUB 1 300 000 thousand with the maturity date of 16 March 2011 and annual interest rate of 9.5 %.
- Bank VTB North-West for the total amount of RUB 380 000 thousand with maturity date of 09 August 2010 and annual interest rate of 11.4 %.

In March 2010 the Group received the fist tranche of the credit line in amount of RUB 100 000 thousand based on the agreement between TransCreditBank and the Group concluded in March 2010. In accordance with the agreement the bank opened the credit line for the Group until 31 March 2013 with annual interest rate of 8.5% and established limit at the total amount of RUB 4 000 000 thousand.

In April 2010 the Group received the loan from Barclays Bank for the total amount of RUB 500 000 thousand with the maturity date of 30 April 2013 and annual interest rate of 8.5%.

In May 2010 the Group concluded the loan agreement Bank VTB North-West and received a loan for the total amount of RUB 500 000 thousand with the maturity date of 07 June 2010 and annual interest rate of 4.9%.

In January and February 2010 Bank VTB North-West opened for Company credit facilities with the following limits:

- RUB 1 500 000 thousand until 24 January 2011 with annual interest rate of 11%.
- RUB 1 230 000 thousand until 16 February 2011 with annual interest rate of 10%.

Repayment of loans

For the period from March till May 2010 the Group repaid loans for the total amount of RUB 6 930 836 thousand.

Bonds offer

As a result of the offer the Group did not redeem any of its bonds issued in March 2007, therefore the total amount of bonds outstanding as at 31 December 2009 was 1 143 503 with coupon rate of 8.5%.

Sale of Inter RAO UES shares

In February 2010 the Group sold its residual part of shares in OJSC "Inter RAO UES" to third parties for the total amount of RUB 456 477 thousand (see also Note 8).

Share increase in Hibinskaya TK

In January 2010 extraordinary meeting of shareholders of the Company approved the increase of the share of the Company in JSC "Hibinskaya TK" and contribute to share capital of JSC "Hibinskaya TK" RUB 56 600 thousand.